BUSINESS WEEK

June 17, 1961

Fifty cents

A McGraw-Hill Publication

Japan drives for still faster growth

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Wilde, Fox, and Shapiro of the Commission on Money & Credit: How effective is U.S. monetary policy? How should it be changed? [Finance]

In BUSINESS this WEEK

June 17, 1961

General business

BW

The departments

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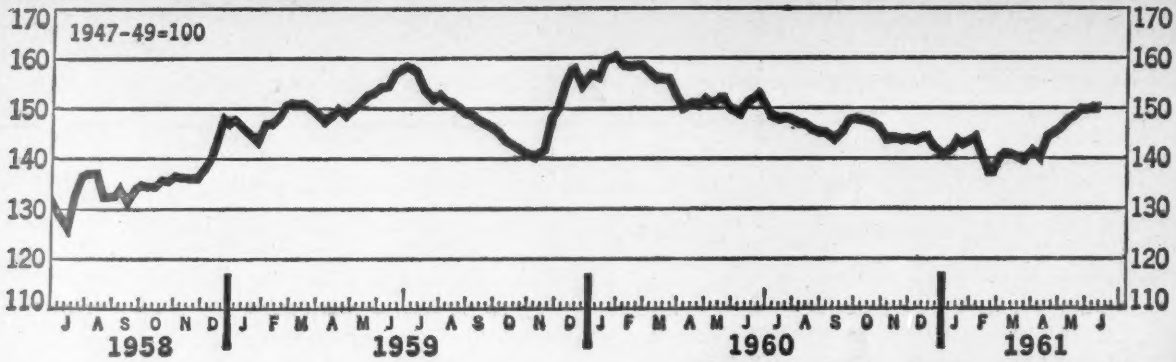
Number 1659

Figures of the week



	1953-55 average	Year ago	Month ago	Week ago	§ Latest Week
BUSINESS WEEK index chart	133.3	151.9	148.9	150.7	151.1*
Production					
Steel ingot [thous. of tons]	2,032	1,756	1,988	2,052r	2,042
Automobiles	125,553	139,423	129,402	85,645r	127,259
Engineering const. awards [Eng. News-Rec. 4-wk. daily av. in thous.]	$52,412	$91,407	$81,011	$81,419	$81,098
Electric power [millions of kilowatt-hours]	10,819	14,147	14,278	13,887	15,004
Crude oil and condensate [daily av., thous. of bbl.]	6,536	6,772	7,013	7,061r	7,054
Bituminous coal [daily av., thous. of tons]	1,455	1,427	1,219	1,355r	1,366
Paperboard [tons]	247,488	327,206	319,615	300,899	332,425
Trade					
Carloadings: miscellaneous and l.c.l. [daily av., thous. of cars]	70	58	55	56	55
Carloadings: all others [daily av., thous. of cars]	47	47	36	41	38
Department store sales index [1947-49=100, not seasonally adjusted]	121	131	140	137	132
Business failures [Dun & Bradstreet, number]	198	283	368	254	349
Prices					
Industrial raw materials, daily index [BLS, 1947-49=100]	89.2	91.9	93.6	91.8	90.6
Foodstuffs, daily index [BLS, 1947-49=100]	90.5	77.1	77.8	76.8	75.7
Print cloth [spot and nearby, yd.]	19.8¢	20.2¢	17.4¢	17.5¢	17.5¢
Finished steel, index [BLS, 1947-49=100]	143.9	186.6	186.1	185.6*	185.6
Scrap steel composite [Iron Age, ton]	$36.10	$31.50	$36.50	$37.83	$37.83
Copper [electrolytic, delivered price, E&MJ, lb.]	32.394¢	33.000¢	30.240¢	31.000¢	31.020¢
Aluminum, primary pig [U. S. del., E&MJ, lb.]	20.6¢	26.0¢	26.0¢	26.0¢	26.0¢
Aluminum, secondary alloy #380, 1% zinc [U. S. del., E&MJ, lb.]	††	24.07¢	21.75¢	21.92¢	21.88¢
Wheat [No. 2, hard and dark hard winter, Kansas City bu.]	$2.34	$1.98	$1.98	$1.91	$1.91
Cotton, daily price [middling, 1 in., 14 designated markets, lb.]	34.57¢	32.20¢	31.79¢	32.07¢	32.17¢
Wool tops [Boston, lb.]	$1.96	$1.67	$1.75	$1.75	$1.75
Finance					
500 stocks composite, price index [S&P's, 1941-43=10]	31.64	57.89	66.83	66.78	66.25
Medium grade corporate bond yield [Baa issue, Moody's]	3.59%	5.25%	5.01%	5.02%	5.03%
Prime commercial paper, 4 to 6 months, N. Y. City [prevailing rate]	2-2⅛%	4%	2¾%	2⅞%	3%
Banking Millions of dollars					
Demand deposits adjusted, reporting member banks	††	59,135	62,246	62,120	62,210
Total loans and investments, reporting member banks	††	103,952	111,272	112,147	111,406
Commercial, industrial and agricultural loans, reporting member banks	††	32,146	32,988	32,601	32,310
U. S. gov't guaranteed obligations held, reporting member banks	††	26,004	30,290	31,397	31,431
Total federal reserve credit outstanding	26,424	27,575	27,914	27,904	28,175
Gold stock	21,879	19,351	17,394	17,403	17,482

Monthly figures of the week

		1953-55 average	Year ago	Month ago	Latest Month
Average weekly earnings in manufacturing	May....	$73.36	$91.37	$91.57	$92.66
Retail sales (seasonally adjusted, in billions)	May....	$14.5	$18.4	$17.9	$18.1

* Preliminary, week ended June 10, 1961.
†† Not available. Series revised.
r Revised.
§ Date for 'Latest Week' on each series on request.

THE PICTURES: Cover, Tibor Hirsch; 28, 29, Roy Doty; 30, Bank of Canada; 33, WW; 34 (lt.) Robert Phillips, (rt.) Jim Mahan; 47, John Coneen; 54 (top, cen. & rt.) Tibor Hirsch, (bot. lt.) Herb Kratovil; 55, 57, Tibor Hirsch; 67, Tibor Hirsch; 73, Belgian Government Information Service; 80, 81, IBM; 89 (top) Tom O'Rielly, (bot.) Williams Research Corp.; 107 (top lt.) Noel Clark, (top second, third & rt.) UPI, (bot. lt.) WW, (bot. second & third) UPI, (bot. rt.) Grant Compton; 109, (lt.) Cameramen, Inc., (second & rt.) UPI, (third) WW; 114, Tibor Hirsch, 131, 133, James Mayger; 156, 158, 160, 162, Jon Brenneis.

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READERS REPORT

The mass media

Dear Sir:

I've read (and reread too!) your mass media report (BW—May27 '61,p76) and have only one comment: GREAT!

It's tough to do a fairly complete wrapup of media as most of us in the business know, since so many changes are taking place daily. I think you've hit the high spots and covered things well . . .

One thought comes to mind concerning television, which you note is also facing problems. Anything written at a time of crisis tends to overemphasize the crisis perhaps. While TV seemingly is in real trouble at the moment, I wonder if it really is. Minow blew off steam and apparently killed the FCC reorganization. In the next five years, I would predict a quiet transition toward better balance and maybe the growth of educational TV . . .

Robert M. Grebe
Television Bureau of Advertising
New York, N. Y.

Dear Sir:

I should have long ago ceased to be surprised at the masterful, in-depth reportage that has become so typical of Business Week's Special Reports. The latest, "The Mass Media," is to my mind the most lucid and comprehensive piece that has ever been done to give equal, objective treatment to the problems of each major media segment . . .

W. Robert Grubb
Jones, Brakeley & Rockwell, Inc.
New York, N. Y.

Dear Sir:

Congratulations on the very fine special report on mass media.

We are presently working with one of the leading media organizations to more clearly define some of the problems the article outlines. The objective, of course, is to locate a path which will lead to more effective selling approaches . . .

Ralph Head
Ralph Head Affiliates
New York, N. Y.

Dear Sir:

Please accept this as our specific "pat on the back" for an exceptional roundup of reporting on mass media . . .

. . . we feel, after a tour of more than 30 metropolitan areas over our nation in the past year,

that FM radio is at this very minute providing the quality image that many "cost per thousand" agencies are desperately concerning themselves with in a gallant means of service to their client.

With more than 16-million sets in use, penetration in the top 25 markets surpassing 40%, with quality programing such as our 100% classical, fine arts broadcasts, FM radio has taken the showmanship, logic, and quality sound of normal radio and coupled with it an audience of loyal, enthusiastic listeners who number more, in some cases, than "quality" magazines. These listeners buy quality products—not by the box, either, but by the carload . . .

Certainly, you must join us in our viewpoint, that—although the Special Report did not have sufficient space to gear the entire FM story—this medium is a third basic broadcast source, now gaining the numbers, even though they will not be the answer to TV's dominance.

David Green
KXTR FM
Kansas City, Mo.

Dear Sir:

Your current issue of Business Week carried a most informative report on the mass media. My first reading of the series was more agreeable to me than the second, particularly with reference to the newspaper section. First is the slightly libelous illustration of a closed newspaper plant. While there have been a number of metropolitan newspapers merge during the last quarter century there has been an equal and offsetting growth of very successful newspaper publishing that has followed the crowd to the suburbs . . .

All major cities are ringed with burgeoning weekly and daily newspapers. One Chicago area publisher prints 16, and two others a dozen each. Los Angeles County is full of success stories, as one publisher in my office last week told me when he described the tenfold growth of his publication since the 1920s.

There is a lot of progressive growth in newspapers—and I emphasize that segment of the press with which we are familiar: the more than 7,000 weeklies and the several hundred small dailies that survive and grow in the turmoil of the atomic age.

Theodore A. Serrill
National Editorial Assn.,
Washington, D. C.

Business outlook BW

June 17, 1961

Steel operations rise again after brief hesitancy

Steel seemed this week to be getting its second wind. Operations were pointing up again after two weeks of hesitation.

The news comes from U. S. Steel, which announces the reopening of its final open hearth shop, the fourth such unit, at the big Gary works.

This is bringing Gary close to its most desirable operating rate (substantially higher than most of Big Steel's other plants or the industry generally). Steel orders appear to be building up in the Chicago area now just as they set the stage for recovery (BW—Dec.3'60,p19).

Rising steel operations—even if the rise were to prove rather slow—would be more than ordinarily reassuring at this juncture.

Right ahead looms the July vacation period in metalworking. There have been fears that this would pinch back use of steel even more than seasonally this year. Not only does it come at a time when recovery is still a tender thing but it also is complicated by the auto industry's schedule, which calls for an earlier-than-usual model change.

Now it seems that steel will do all right. If so, any recent hesitancy in the rate of business recovery may be dismissed.

Fall to see gain in employment

Employment should begin showing the effects of recovery much more clearly by the time the report for September comes out.

Why should there be such a lag?

Partly, it's the labor market's built-in response to the cycle; factories are particularly slow to hire as business recovers (though they are quick to furlough on the downturn). Thus, though employment is a leading indicator on the downside, it's a laggard on the recovery.

Then, too, summer labor force figures are distorted by the influx of temporary workers. When students go back to school and fair-weather hands back to the fireside, the figures take on solid significance.

Most observers will be fairly happy if the seasonally adjusted employment-unemployment ratios improve ever so mildly through the summer.

There has, in fact, been modest improvement in the number of jobs in manufacturing (as well as in total nonfarm payroll employment) since February. The pickup is particularly welcome in plants making durable goods where improvement in autos and steel have made the big difference.

There's no assurance that this will be fully sustained, however; vacations and Detroit's early model change complicate things.

Longer hours aid purchasing power

Prospects for payrolls and purchasing power can, of course, be forecast with more certainty than can employment itself.

You see that from what has already been happening in factories.

Manufacturing workers are getting nearly an hour more work each week, on the average, than they were earlier in the year. The work week in durable goods factories once again is above 40 hours, in fact.

Longer work weeks, combined with hourly wages that tend to rise steadily (if slowly), have pushed average weekly earnings $3 above where they were at the start of the year and $1 better than a year ago.

Business outlook Continued

Purchasing power in future recessions would be bolstered, obviously, if Congress adopts the extension of unemployment benefits suggested by the White House this week.

Meanwhile, it might be noted that the emergency measure that went into effect in mid-April is now taking some sort of care of just over three-quarters of a million of the long-term unemployed.

Their inclusion keeps the total drawing unemployment compensation on the high side—over 3-million. New applications under the ordinary state programs, however, have declined sharply in the last three months and are now running little higher than a year ago.

Retail sales rise as durables gain, but still lag 1960

With more money to spend, thanks to new records in personal income, the American consumer seemed a mite more willing to part with it last month.

Sales in the nation's retail establishments bounded back in May from the lusterless levels of April, which had been beset by rainy, cold weather and the usual post-Easter letdown.

Retailers rang up $18.1-billion in May (1.2% better than the previous month) after adjustment for seasonal and trading-day differences.

The pickup, while encouraging, set few retailers to tossing their hats in the air. For sales remained almost 2% below May, 1960, and failed by about 1% to equal the previous 1961 high set in March.

Sales of hardgoods rose to $5.6-billion in May. That bettered April by 2.9% and just about equaled the March showing—but still lagged behind May of last year by 8%.

Autos and automotive products sparked hardgoods sales, of course.

Dealers had a $282-million rise in volume over the month before but still fell some 7% short of last year.

And furniture and appliances remained in the doldrums last month. Sales were almost 14% under the year before. A strong pickup in homebuilding quite certainly would be the quickest cure for this.

Big stores profit as Mother's Day turnover grows

Credit Mother's Day buying for whatever vigor marked volume in department stores during May. Sales, aided by one more trading day, topped the same month a year ago by nearly 7% (unadjusted).

Mother's Day this year outstripped Easter as the No. 2 selling season for department stores (Christmas, of course, being first). In the week preceding the event, the Federal Reserve Board's index reached its highest 1961 mark—157% of the 1947-49 average. That was only 1 point short of the best previous Mother's Day record, reached in 1959.

By comparison, the pre-Easter week was only 151 on the index.

Weather spurs electric power

Production of electric power went kiting toward last winter's peaks last week with the season's first really hot weather. **Output of just over 15-billion kwh. was well over a billion higher than the week before** (which included Memorial Day) and better than **6% higher** than a year earlier.

Last week's high level for electric power—and the new records that will be set later in the summer—unfortunately cannot be traced in any true sense to business recovery.

Summertime highs now, and for several years past, are due to the vast spread of air conditioning.

BW June 17, 1961
Number 1659

BUSINESS WEEK

In Congress

Kennedy gets his way

In spite of some strategic retreats, he is getting most of the legislation he wants—and in so doing is setting many of the issues for next year's elections

In his relations with Congress at least, President Kennedy will be able to count his first half year in the White House a success. As the tabulation on page 26 indicates, the Administration has already pushed through or is about to get approval for a variety of its space, military, economic, and social welfare programs.

Though some of his key measures will be dropped and some radically rewritten, Kennedy, all in all, is doing far better with Congress than the narrow vote in last November's election suggested he would.

This very success means that Kennedy is going to be judged on how the new federal programs work in actual operation. Republicans have no recourse but to attack the workability of the major measures, and their new national chairman, Rep. William E. Miller of New York, shows every indication of wanting to take a strong line.

Barring a new international catastrophe, the basic fight Kennedy faces in the future will be spending vs. economy. If by next year, the economy isn't producing the revenues that Kennedy's aides are talking about to pay for the bigger spending, then Democratic majorities in Congress will narrow sharply or disappear, and Kennedy will need a new strategy for 1964.

Welfare. In welfare measures, Kennedy has rather easily gotten from Congress expansion of Social Security benefits, is now getting the biggest housing program ever, and is about to get half a billion a year for school construction grants. These programs are not newly devised, but the Administration has pushed them farther than before. And their cost is high. The housing program's price tag alone runs into billions.

On newer measures, Kennedy is willing to start small. Hearings opened this week, for instance, on the proposed Youth Conservation Corps. Kennedy would settle for a pilot program for on-the-job-training of about 10,000 youths, at some $100-million a year.

One politically hot welfare measure is being held over to next year. That's the much-argued campaign issue of medical care for the aged, financed out of Social Security taxes. Kennedy forces have already watered it down to a hospital-and-nursing-care bill, dropping out doctors' bills.

Economic boosters. On programs to bolster the economy, Kennedy's record is mushy—but he has been lucky. He delayed deciding between a tax cut and public works, betting that the recession had hit bottom—and won his bet. With business on the upturn, he can take a fairly relaxed view of rough Congressional treatment of his proposed tax incentive for capital spending by business and his general farm legislation.

His highway financing program is through the House and ready for the Senate. The depressed areas bill is law. A new $1.25 minimum wage is on the books, though Kennedy had to retreat on some counts.

Kennedy is jettisoning some programs he labels as marginals. For instance, Treasury Secy. Douglas Dillon, threatened by a storm of opposition, dropped legislation to eliminate the legal requirement for 25% gold backing for the currency.

Some fairly important bits of Kennedy's tax legislation may pass the House but odds are strictly against the Senate acting in time to get a compromise version into law before adjournment. The House may tighten up on expense accounts and tax havens, enact dividend withholding, perhaps approve a 7% to 10% across-the-board tax credit for all business spending on new plant and equipment.

On one front, Kennedy is executing a strategic withdrawal. On his broad plans to reorganize regulatory agencies such as the Federal Communications Commission, he yielded to Democratic opposition.

Defense and space. In the rough and tumble politics of defense, Kennedy has done strikingly well. Perhaps most important, his choice for Secretary—Ford's Robert S. McNamara—seems to be that man-in-a-million, a civilian who can boss the squads of generals in the Pentagon.

Kennedy has taken the politically popular stance of boosting defense spending—but has limited the overall increases by slashing elsewhere, including such politically daring decisions as closing military bases.

Following the huge technical and TV success of astronaut Shepard's flight, Kennedy made his decision for probably his most dramatic demand on Congress to date. He asked authority to commit all the scientific manpower and all the money needed to close the commanding lead of the Russians in the race for space, by landing an American on the moon and bringing him back as soon as possible. He put the price tag at $7-billion to $9-billion over five years, but asked a Congressional commitment, whatever the cost may be. From all signs, he will get it.

Foreign aid. From now until Congress goes home—which may be close to Labor Day—Kennedy and

his White House crew will be putting their all into a new foreign aid bill.

Kennedy wants what he claims is absolutely necessary to take much of the waste out of foreign aid—authority to draw on the Treasury over a five-year period, thus making it possible to commit funds to long-range projects, such as power plants, highways, and water systems.

He puts the total for this at \$8.8-billion—\$1.5-billion in authority to lend out again repayments that come in, and \$7.3-billion to be drawn out of the Treasury over the five years.

Opposition is formidable, and the outcome is touch and go. Congressmen say foreign aid is unpopular with their constituents. Republicans who will lead the fight can count on some highly critical comments on the wastefulness of past programs from such Democratic powers as Majority Leader Mike Mansfield and Foreign Relations Chmn. J. William Fulbright.

How the Kennedy program is faring

Proposal	Where it stands	Its outlook
Unemployment compensation Estimated \$950-million to 3-million workers in next year or so	Signed into law	
Minimum wage \$1 and \$1.25 an hour for 3.6-million workers over next four years	Signed into law	
Aid to depressed areas \$394-million authority to borrow from Treasury	Signed into law and being put into effect by Commerce Dept.	
Aid to education Kennedy proposal provides \$2.5-billion in three years for construction and salaries	Senate has passed; House is starting work	**Prospects are brightening; pressure continues for separate provision for long-term loans to private (including parochial) schools; vote will be close**
Housing \$2.5-billion for urban renewal; 100,000 public housing starts; 40-year mortgages; \$10,000 guaranteed mortgages for rehabilitating existing homes	Senate has passed program with only minor trimming of requests; House will take it up soon	**Major requests seem sure of approval**
Civil rights	Legislation will be held up at best until late in the session	**Kennedy's use of executive power to protect Negro rights seems to be paying off politically, helping school aid and housing bills to escape anti-segregation riders that might doom them**
Health care for the aged Kennedy's plan tied to Social Security system	House hasn't yet started hearings	**No pressure for approval now; opposition is strong; Kennedy aides see a good pre-election issue for next year**
Social Security liberalization Retirement for men at 62 on reduced benefits; higher minimum for widows; a ¼% boost in payroll taxes	Approved by House	**Senate Finance Committee starts consideration this week; Senate is expected to approve**
Highway financing \$9.8-billion in added revenues in next 10 years	House passed bill, with increase in truck taxes, but not as much as Kennedy asked	**Senate version up for approval this week will be close to that of the House**
Tax revision \$1.7-billion incentive to capital spending; \$1.7-billion new money from taxes and plugging loopholes	House Ways & Means Committee is writing its own version	**House committee will pick and choose among the proposals; House action is possible this session, but Senate action is unlikely**
Tax renewal Continuation of 52% corporate rate and excises on liquor, tobacco, fares	Passed by House	**Final approval certain by June 30; only real fight comes on passenger fares, and that won't succeed**
Farm legislation	Quickie program for feed grains passed over opposition of big-city Democrats; general farm program in trouble	**Politicians doubt that Kennedy will fight hard; farm programs will muddle along again this year**
Man to the moon Kennedy's most dramatic single request \$9-billion in five years	First \$531-million addition to space budget is already moving through Congress	**GOP backs space program, despite estimate of cost at \$20-billion to \$40-billion over 10 years; action is likely**
Long-term foreign aid Kennedy wants \$8.8-billion, including \$7.3-billion in Treasury borrowing authority over five years	Hearings under way in both houses on authorization bills	**Kennedy will go all-out to get authority for long-term commitments to make foreign aid more effective, but opposition is powerful; outcome is uncertain**

New storm over polio vaccine?

Research detects 'strange viruses' causing animal cancer in monkey kidneys like those used in making Salk vaccine; there's no link to man, but scientists are uneasy

A growing sense of uneasiness is spreading through the scientific community this week. Laboratory tests have revealed the presence of certain "strange viruses," previously undetected, in money kidneys—the same type of monkey kidneys used to make the Salk vaccine that has been injected in millions of Americans to prevent poliomyelitis.

There is no evidence that these "strange viruses" are the cause of disease in man. But, in early tests, they have caused cancer in hamsters. A further complication is this: They are unlike any other known agent that causes cancer in animals.

Discovery. First discovery of the "strange viruses" was made in the U.S. Public Health Service's own Division of Biologics Standards last October. The government laboratory—fearful of setting off a wave of reaction against polio vaccination—has not, as yet, published its results officially. But summaries of its claims are being passed back and forth freely through medical laboratories. A paper describing the research is appearing this week in the May issue of the Proceedings of Experimental Biology and Medicine.

Dr. Luther L. Terry, surgeon general of the U.S. Public Health Service, acknowledges the discovery of the "strange viruses" in certain lots of monkey-kidney culture material. But the findings do not have any significance in terms of safety or efficacy of polio vaccines, he says.

The Public Health Service is reported to have launched a research project aimed at identifying the "strange viruses" more closely. At the same time, it is said to be taking steps to rid future Salk vaccine of any trace of them.

Dilemma. The predicament that both government and industry scientists face is a difficult one. These are not the first viruses uncovered in monkey kidneys. On at least one previous occasion a simian virus was detected in some batches of kidney material used to make Salk vaccine, but was found to be harmless to humans. This could prove to be the case again.

A scare that would call a sudden halt to polio vaccination might be exceedingly dangerous. The Public Health Service, in its annual polio report this year, states flatly that polio virus is again attacking very young, unimmunized children with unusual violence. Two out of five paralytic admissions to hospitals in 1960 were children under five years of age. Nearly two-thirds of all cases were under 10 years of age. To stop vaccination until complete checks are carried out on the new "strange viruses" might open the way to a polio epidemic.

On the other hand, the case against the "strange viruses" looks serious. In the Public Health Service tests, newborn hamsters, injected with a solution of the virus-containing monkey kidney, developed cancers at the place of injection in 109 out of 154 cases. Transplantation of the hamster cancers into other animals took hold and continued to grow.

Besides this, the animal cancers developed as a result of injections of monkey-kidney viruses are unusual. They are apparently completely different from a type of virus-caused cancers, called polyoma, that erupt in epidemic form among laboratory and other animals.

Questions. Salk vaccine is a killed virus vaccine. In producing it, laboratories cultivate three types of live polio-causing virus in monkey kidney cells. Each type is grown separately, is inactivated with formaldehyde and then the three are combined into a vaccine.

To make certain that no live polio virus gets into the finished product, vaccine samples are injected into healthy monkeys—and the animals are observed for a month. Vaccine samples are also added to tissue cultures to see if any growth takes place indicating the presence of live polio virus.

Polio viruses are inactivated by treatment with formaldehyde, but there's no certainty that all other viruses are killed by this exposure treatment. Probably many of them are, though some live viruses have been known to survive the formaldehyde treatment. The question is: Are the "strange viruses" killed?

Another question arises from the fact that in the Public Health tests the hamsters, after injection with the "strange viruses," were slow to develop malignant cancers. If these viruses are harmful to the human system, is their reaction time also delayed there? If so, researchers would be slow to observe a connection between an old series of polio vaccinations and the subsequent appearance of cancer.

The worst suspicion of all haunting medical men today is this: that the sudden spurt in deaths due to leukemia may be caused by the injection of something like the "strange viruses" into the bloodstream. Leukemia, or blood cancer, is now thought to be caused by a virus.

One way out. As one way of getting around these questions, Dr. Hilary Koprowski, of the Wistar Institute in Philadelphia, suggests the immediate substitution of human cells for monkey kidneys—as the nutrient material on which to grow polio viruses. The cells would be taken from human embryos, checked carefully, then used as feed stock for polio virus cultivation as needed.

Live vaccine. Koprowski is the developer of one of the three strains of live virus, oral polio vaccine developed in the U.S. Another live virus vaccine—the Sabin vaccine—was approved by the Health Service last April for mass testing (BW—Apr.8 '61,p103), and is due to appear for commercial sale sometime this fall.

Sabin vaccine differs from Salk vaccine in depending on live viruses instead of killed viruses to trigger the body's production. But, like the older vaccine, Sabin vaccine also is grown on a tissue culture of monkey kidney.

This is the second storm to sweep over the Public Health Service's polio vaccination program this year. The first—in March—(BW—Mar.11'61, p58) came out of a charge in the Journal of the American Medical Assn. that a great many of the 355-million shots of Salk vaccine released since 1955 have been worthless."

Where vacation money is going

Americans will spend more this summer, but they're more bargain-minded. It may be an off-year for Europe, but the Orient—and the U. S.—will do well

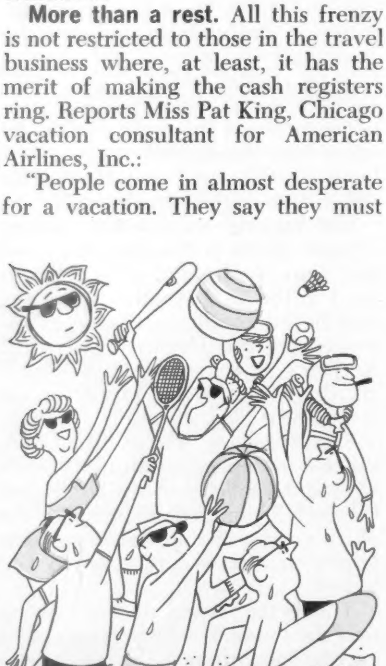
"People seem to feel something like the end of the world may be coming and we ought to see as much as possible of it now," says an official at a Standard Oil Co. (Ind.) travel center.

"Things are going wild," reports Mrs. Lillian Johns of the American Automobile Assn.'s Toledo club. "We have a backlog that will keep us busy past the end of this month—mostly for long, extended trips."

As another vacation season rolls around, a trend of monumental proportions is showing up: late planning particularly in overseas travel. "No doubt about it, people are booking later now," the office manager for a San Francisco travel agency says. "In the past, travelers would have their plans for summer trips in the hopper by January; this year they're coming in and wanting to go out tomorrow."

More than a rest. All this frenzy is not restricted to those in the travel business where, at least, it has the merit of making the cash registers ring. Reports Miss Pat King, Chicago vacation consultant for American Airlines, Inc.:

"People come in almost desperate for a vacation. They say they must relax; they must get away from it all. But they're really not content any longer to sit on a beach for two weeks. An executive looks forward to a rest at Acapulco. But after a few days he's eager to go somewhere and do something—take pictures, go sightseeing, try deep sea fishing, anything."



Trends. From most indications, the important trends this vacation season are that travel to Europe may not exceed the peak it achieved last year when over 800,000 Americans went; an important rise in the number of visitors to the Pacific Islands and to the Far East; and, according to the National Assn. of Travel Organizations, "explosive gains in travel in the U. S."

Exactly why European travel should not continue its steady, 10-year growth is hard to pin down. The reason most often mentioned is that nothing is going on this year. By contrast there were the Olympics in 1960, the Passion Play, and Eucharistic Congress.

Other agents have noticed that people are afraid of unsettled world conditions. But this is often disputed. Says Anders Kullander, manager of the world travel service department for the Automobile Club of Southern California, "People feel no one is going to start a war, and even if someone does, it doesn't matter where they are."

A few travel agencies report customers who want to vacation in this country in 1961 to keep dollars here. Whatever the reason, the leveling off in travel to Europe could mean a bleak year for transatlantic airlines. With ever more jets in their fleets, seating capacity may increase about 45% this year over last. Among the tourists who do go, the trend is decidedly toward economy class tickets.

Most agencies and airlines are counting on the last-minute rush they've noticed in the first two weeks of June and the tendency for people to go later in the fall to save the day. "We used to predict our business a full quarter ahead," says an American Express Co. official in New York. "This year if we had to depend on what we had by June 1, we'd be dead, and so would the airlines."

To the Orient. The big increase in travel across the Pacific is new in 1961. American Express reports that over 20% of its business in Western offices is for the Far East and that the big jump has happened this year.

A possible reason for this was put forth by a San Francisco agent: "Folks are going to the Orient because they've already been to Europe." But there's more to it than that. The vast distances of the Pacific are now being reduced by jets. And the P&O-Orient Lines is offering a new service at reduced rates to Japan, a nation described by an official at Thos. Cook & Son, Inc., as "the magnet that's drawing people to the Pacific."

The island of Tahiti has a new jet strip this year. "Furthermore, it's now a jumping-off point for other islands we never dreamed of visiting," says one agent. "As for Tahiti itself," he adds, "if you want to see it the way it was when Gauguin lived there you absolutely have to go this year. Next year: Howard Johnson's."

Caribbean. As for travel to the Caribbean, there are conflicting reports. Lately reduced rates in many places have attracted thousands of summer tourists. An official of the Nassau Development Board predicts that if the 1961 trend of 1,000 daily arrivals continues, "we should attract well over 100,000 visitors in the June-August period compared with 86,419 last summer."

Elsewhere, the outlook is often gloomy. The reason mentioned most often for the decline in Caribbean business, of course, is Castro.

See U. S. For travel within the U. S., however, it looks like a spectacular year. Perhaps because the economy is snapping back from its mild dip, perhaps because of the growth of the interstate highway system, or perhaps because of the raft of historical celebrations this year—particularly those connected with the 100th anniversary of the Civil War—more Americans will be

traveling this summer than ever before. From most reports, they'll also be going farther and spending more money.

The upturn has started already. Washington hotels have had the best spring they've ever had. National parks have experienced a sharp increase. Even Grant's tomb in New York City is getting more visitors.

The American Automobile Assn. headquarters in Washington says that its production of books and maps is up substantially over last year. It predicts that the West will

be particularly popular, that the Canadian Rockies will have more American visitors now that they are more accessible to automobiles. The New England Hotel Assn. reports that hotels, motels, and resorts have never before been booked up so early in the season.

After a so-so winter in which the hotels were off 5% to 10% and the shops were off 10% to 20%, Miami is looking for a better summer than last year. The Florida zone manager for Hertz Corp. predicts on the basis of early reservations that the rent-a-car business this year will be 5% ahead of last summer's record volume in the greater Miami area.

Economy-minded. Americans apparently have plenty of money to spend on vacations and are willing to spend it—American Express estimates they'll shell out $21.2-billion domestically this year, up from $20.4-billion in 1960. But they aren't going to throw it away on a huge spree.

"Once people used to spend their vacation money like drunken sailors," says one automobile club official, "but now they're shopping around and avoiding the plush motels."

In Boston, an Automobile Legal Assn. official says that people are asking for routes that avoid turnpikes. "It may be the cost, or the monotony," he explains. "Everybody is asking about the cost of toll roads and bridges—even the gasoline taxes. Before, these costs used to be of little concern to them. Now they figure that $40 in tolls could be spent on another day's vacation."

In some cities the opposite logic is propounded. For a vacationing family on a long trip, turnpikes can cut down the days spent in getting there, and hence reduce costs.

Camping out. The popularity of camping out (BW—Sep.17'60,p30) is continuing this year, partly because it helps hold down costs and partly because it makes for a more vigorous vacation.

"The trend to larger families and family vacations is making camping a big business," says the Standard Oil Co. (Ind.) travel center. And once again there's that restlessness: The

family doesn't want just fresh air; it wants to go sightseeing, take pictures, climb mountains, watch rodeos.

Luring the winter traveler

Air and ship lines try special excursion rates to fill their surplus space during the stormy season on the North Atlantic. Cruises are helpful, too

The North Atlantic in winter is a bleak place. Not only can it be cold and stormy, but contrasted with summer months when hordes of tourists make the crossing, it is almost empty of passengers.

For steamship companies and airlines with their huge capacity necessary for the summer rush, this presents a problem. Airlines, which carry two-thirds of all passengers, made one attempt to level out the peaks and valleys by instituting a 17-day excursion fare last fall (BW—Oct.15'60,p32). The fare, which was approximately 28% under economy rates, ran from Oct. 1 to Mar. 31.

Today no one is prepared to say if this promotion was a thumping success. Indeed, the inference to be drawn from the silence is that it wasn't. Officials of the transatlantic airlines met last week in a closed-door session to discuss this point.

Another meeting will be held in July to discuss the plan and vote on extending the time limit to 23 days and, perhaps, to grant discounts to groups of 35 or more people traveling together. The probability is, however, that no action will be taken by next Oct. 1 when the 17-day rate goes into effect again.

Meanwhile, the steamship lines have introduced an excursion fare of their own. They will offer a reduction of 25% for transatlantic passengers extending from Nov. 1 through Feb. 28. The plan provides for 21 full days ashore.

Since the advent of jets, ships have encountered increasing difficulty luring winter travelers to Europe. Most of these are businessmen in a hurry. Foreign flag companies, notably Cunard Steam-Ship Co., Ltd., and Holland-America Line, have met this problem by maintaining a minimum number of sailings across the Atlantic and by putting "surplus" vessels in cruise service.

Up to now such American flag companies as U. S. Lines and American Export Lines have been unable to compete for this business because their contracts with the Federal Maritime Administration, under which they receive subsidies, did not include Caribbean cruises. From now on they will.

Canada dropping its arch nationalist

Ouster of James E. Coyne as Governor of the Bank of Canada marks the end of a long power struggle with Finance Minister Fleming over economic policies

James E. Coyne favors restrictionist policies, rather than government spending, to deal with growth problems.

Finance Minister Donald M. Fleming this week told Canada's House of Commons that "appropriate action" will be taken to remove James E. Coyne as Governor of the Bank of Canada, the Dominion's central bank. Coyne is known in the U.S. as Canada's most influential proponent of extreme economic nationalism (BW—Dec.17'60,p100).

The decision to fire Coyne signals an end to a long power struggle between Coyne and Fleming for influence over the policies that Canada should take to deal with its problems of slow growth and high unemployment (BW—Jan.7'61,p52). Unemployment is now about 11% of the labor force; and although a business recovery is under way (BW—Jun. 3'61,p24), most Canadians doubt that the revival will make much of a dent in the jobless rate—because of rapid growth in the labor force—unless the government takes vigorous action to expand the demand for Canadian products

The issues. Up to this week, the fight between Fleming and Coyne has inhibited strong action by the government. Although Prime Minister Diefenbaker called Parliament into early session last fall to formulate new economic policies, the program presented to Parliament was a weak one, because it represented an uneasy compromise between the views of the two powerful men.

In the infighting over economic policy, Fleming consistently has favored easing Canada's money supply and boosting government spending in order to spur demand. Coyne has resolutely opposed these policies, and the Bank of Canada has refused to go along with them. Instead, Coyne has favored dealing with Canada's problems through restrictionist means: boosting tariffs and imposing quotas on imports in order to divert demand from foreign to domestic goods, and restricting the flow of foreign capital into Canada to try to shift the control of many businesses from foreign hands—chiefly U.S.—to Canadians.

Diefenbaker decides. The emergency budget introduced into Parliament last November made concessions to both Fleming and Coyne, but, in the opinion of most Canadians, it was generally too weak to provide sufficient stimulation to the economy. And the introduction of Canada's regular budget, due last April, has been delayed as Diefenbaker continued to vacillate between the views of the two men.

The period of indecision now appears to be over. In supporting Fleming in his desire to fire Coyne, Diefenbaker has clearly come down on the side of expansionist monetary and fiscal policy for Canada, and against further moves to restrict the flow of foreign capital and goods into Canada.

New policy. The new direction for economic policy was evident in the speech that Fleming made to Parliament explaining why he intends to get rid of Coyne. Fleming said that Coyne's policies have been "restrictionist—restrictive of trade, restrictive of production, and restrictive of jobs." He also said that the long-delayed budget would be introduced June 20. He implied that it would be an "expansionist" budget.

Here's what Fleming's decisive victory over Coyne means for Canadian economic policy:

- A boost in government spending. On the basis of present plans, fiscal experts estimate that Canada's deficit will be $700-million in the current fiscal year—equivalent to a $9.8-billion deficit for the U.S. A boost in government spending will probably increase the Canadian deficit, at least in the current fiscal year.
- A cut in interest rates. In his speech to Parliament, Fleming was bitterly critical of Coyne's high-interest tight-money policy. It now seems certain that the government will attempt to get the Bank of Canada to expand its holdings of government securities, thus lending the central bank's support to last week's move toward lower interest rates by commercial banks.
- An attempt to eliminate the exchange premium on the Canadian dollar. In the opinion of money market experts, the Canadian dollar has been at a premium because of high foreign purchases of high-yield Canadian long-term securities—especially U.S. purchases. A fall in interest rates, relative to those in the U.S. will cut these purchases and lead to a drop in the demand for, and therefore the price of, the dollar.

Fur flies. The fight between Fleming and Coyne has been one of the most acrimonious in the history of Canadian officialdom.

Coyne stated that the main reason that Fleming requested his ouster is an action, taken last February by the board of directors of the Bank of Canada, to raise the governor's pension. Coyne said that Fleming's charge "was a slander on my personal character which I cannot ignore or accept."

Fleming denied that the increased pension was the main reason for his desire to fire Coyne, although he added that he took a dim view of "Mr. Coyne's withholding of information" from the cabinet that the board of directors had hiked his pension. In his speech, Fleming lashed out at the governor for "ill-considered actions and a series of declarations on public issues quite outside the usual realm of central banking." He was critical, too, of "Mr. Coyne's rigid and doctrinaire expressions of view . . . openly incompatible with government policy."

GE stands firm on consent decree

Company says it will face open court trial rather than sign order following price-fixing conviction

Its stand is that the ban on "unreasonably low prices" is too vague and ambiguous for effective fulfillment

Other electrical manufacturers are apparently deferring decisions on signing, waiting for outcome of GE's refusal

General Electric Co. was sticking to its decision this week to go to trial—even at the risk of an attempt to break up the big corporation—rather than sign the civil consent decree the Justice Dept. has proposed as a follow-up to its price-fixing conviction.

Paradox. At issue was what appears to be a paradoxical position taken by the Justice Dept. on the electrical equipment industry's pricing practices. The government won a stunning victory when GE and 28 other manufacturers entered guilty or no contest pleas to charges that they fixed prices and carved up the market in violation of the Sherman Antitrust Act. Presumably, the result was higher prices; certainly that charge was what brought about the whole investigation.

The proposed consent decree includes specific provisions barring any continuation of these Sherman Act violations but takes the opposite tack. One paragraph would prohibit GE, or any other company signing the order, from selling equipment at "unreasonably low prices" that might eventually injure competition. What's more it puts the burden of proof on the company to show that its prices were not "unreasonably low."

Thus, as GE sees it, the government on the one hand successfully prosecuted it for anti-competitive price-fixing, but now wants it to agree not to compete too vigorously. As GE Chmn. Ralph Cordiner told the Kefauver committee's current price-fixing probe: "Even with the government condoning it, we are not going to get involved in price-fixing."

The Justice Dept. presumably is using the consent decree, which covers only switchgear, as a model for settling the other civil suits involving other products. The government is seeking the consent decrees in the civil action to establish machinery to prevent recurrence of the practices found illegal in the criminal suits. Triple damage suits are also being filed.

Threat. The battle over the decree was intensified earlier this week by reports that the government had threatened GE with divestiture of its apparatus business unless it signed the order. Justice Dept. spokesmen firmly denied that it had anything to do with such stories and implied that GE had prompted them to gain public sympathy.

According to Washington, antitrust chief Lee Loevinger met with GE's lawyers once, along with other switchgear makers, and simply mentioned that if GE didn't sign the order the government was free to alter the remedies it sought, with divestiture as one possibility. Loevinger feels this wasn't made in the form of a threat.

The government set June 15 as a deadline for signing the consent decree. So far only C. H. Wheeler Mfg. Co. has done so, covering condensers. The other manufacturers apparently are waiting to see the outcome of GE's refusal to sign. Westinghouse Electric Corp., for one, said it was still negotiating with the Justice Dept. at midweek, but had made no decision on what it would do.

Second objection. Westinghouse has picked another section of the decree as probably more damaging than the "low price" clause. This is a provision that requires itemized prices for each piece of equipment in bids on big turbine-generator jobs or in new turn-key generating plant bids. The company would be required to sell any item on that bid to any competitor at the bid price.

Only GE, Westinghouse, and Allis-Chalmers Mfg. Co. are capable of providing such complete jobs. But the itemized price provision would permit smaller manufacturers to enter bids, picking items from the others needed to supplement their own equipment.

Presumably action such as the "low price" clause and the itemization provision was urged upon the Justice Dept. by smaller companies who fear heavy price cutting will result from the breakup of the industry's price-fixing practices. For example, Max Scott, president of I-T-E Circuit Breaker Co., in his testimony before the Kefauver committee mentioned that large companies, after the antitrust fuss had died down, might take prices "right down to the cellar," keep them there, and bring them back slowly to reestablish market positions.

The big companies, on the other hand, are concerned lest apparatus that they developed be made available to companies that didn't share their development expenses.

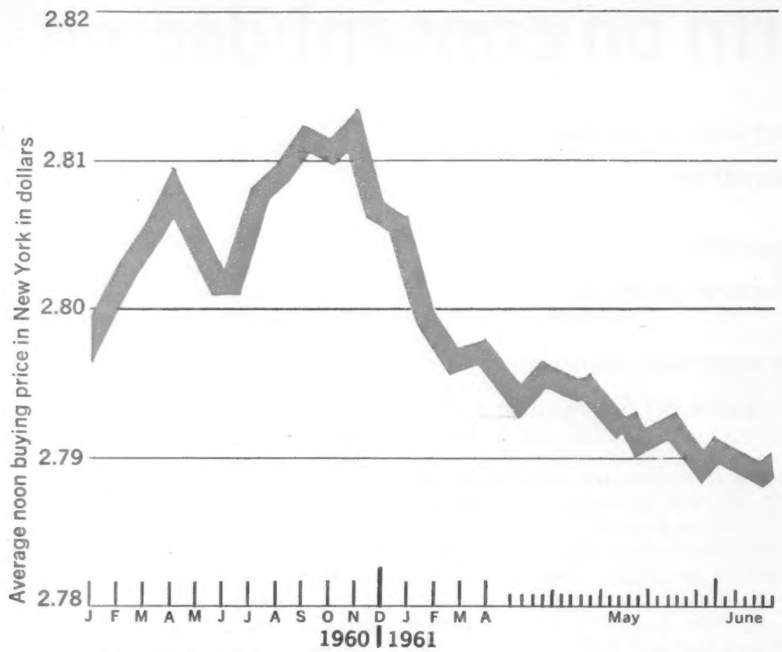
Rational. GE's stand on the "low price" clause is simply that it is too vague and would allow any competitor to bring charges whenever it lost out on a contract or bid—and it would be GE's burden to substantiate its price each time. The eventual result, says GE, would be "selling at the prices of your least efficient competitor."

Though GE and the rest of the industry have sought to avoid an open court trial on the price-fixing conspiracy, Cordiner is apparently prepared to have the as yet undisclosed details put on public view rather than sign the decree.

Justice Dept. spokesmen say the "unreasonably low price" provision is drawn from the language of the Robinson-Patman Act; however, the government in such cases must prove intent to eliminate competition.

Final determination of what is "unreasonably low" and constitutes a violation of the consent decree would be up to a judge. In the past, the courts have taken fairly tough views in determining violations of the pricing laws. But the "low price" clause in the Robinson-Patman Act is mostly untested.

The big drop in sterling



Data: Federal Reserve Bank of New York

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Sterling under attack

Latest decline in British currency sparks devaluation rumors. But despite an ailing balance of payments, most bankers feel the pound is safe for the present

An old story was news again this week: Pound sterling was under attack.

Pressure on sterling is the most severe since the post-Suez crisis of 1957, when the Bank of England had to raise its discount rate to 7% to defend the pound. And once again, the bankers and speculators in the money markets of the world—in Zurich, Paris, New York, and London—were raising the specter of devaluation. This might involve either a simple reduction in the par value of the pound, or, alternatively, a widening of the margins within which the free foreign exchange market is allowed to operate, which would be tantamount to devaluation.

Symptoms. Unlike the rush out of sterling after the German revaluation in early March, there is nothing sudden or violent about the new currency weakness. But there is no doubt that the pound is sliding:

- The spot price—for immediate delivery of sterling—dropped under $2.79, the lowest level in almost four years (chart).
- The discount on forward sterling—for delivery in 90 days—has widened to the point where, for the first time in over a year, the "interest arbitrage advantage" in short-term investments in London was wiped out. This means that the U.S. investor who wanted to put his money temporarily into pounds would have to pay more to hedge against the exchange risk than he would gain from the higher interest rate. It was this rate advantage that attracted more than $1.5-billion into London's money market last year.

At midweek, the pound took a turn for the better, but traders regarded this as a technical reaction rather than a sign of real strength. Indeed, one of the most ominous features of the new weakness is its timing. In the past, sterling has faced the greatest danger during the late summer and fall, when seasonal pressures normally force down the value of the pound.

Rash of rumors. But now, well in advance of its normal seasonal trouble, alarms are being sounded. Rumors of a devaluation are so rife that Per Jacobsson, managing director of the International Monetary Fund, felt it necessary to deliver a warning this week, stating that the leading nations "are determined to maintain the existing parities. There is no foundation whatever for the rumors that there are some new plans under international discussion for currency adjustments, whether by revaluation, devaluation, widening of margins or in any other way."

To those sophisticated in international financial matters, Jacobsson's warning meant only one thing—that the Bank of England and other central banks have agreed to support the pound. The fact that Jacobsson spoke from Basle—where central bankers, including officials of the Federal Reserve, had been meeting—underlined the warning.

This was the interpretation put forth by George H. Chittenden, foreign exchange expert for Morgan Guaranty Trust Co. of New York, who commented that "The Bank of England hasn't even begun to fight." In fact, there is some talk that the latest decline was part of a tactical maneuver to trap speculators into selling sterling short.

Skepticism. Still, official statements haven't stopped sales of sterling. Speculators recall that last winter the Germans said they would never revalue the Deutschemark. And back in 1949, the British denied that they would devalue sterling. So, official statements are being taken with a grain of salt.

Devaluation, of course, would be a drastic step. Short-term investments in sterling by foreign holders run to some £3.5-billion (about $10-billion). If the pound were devalued, this would mean staggering losses to these holders as well as a disruption of the Free World's payments mechanism. For the bulk of the short-term funds in London represent the currency reserves of underdeveloped countries, who use sterling—and the dollar—to settle trading balances.

Sick trade balance. The root of Britain's trouble is its deficit in its balance of payments. Like the U.S., Britain has been running a sizable over-all deficit. But unlike the U.S., which faced a dollar crisis last year because of the big outflow of short-term funds, Britain's sterling crisis stems from the deficit in its trade.

Last year, for example, Britain imported almost $3-billion more than it exported, and so far this year its trade balance is more than $500-million in the hole.

This deficit was masked by the flow of funds into London last year, when the spread between British and American rates was wide. But now that the drop in forward exchange rates has eliminated the advantage of investing in London, the influx of funds has dried up.

In mid-May, according to the Union Bank of Switzerland, the flow of "short-term investments in London had come to a standstill and maturing foreign moneys were more often retransferred abroad than reinvested in London." Union Bank adds that "Banks and commercial firms alike are generally reluctant to keep positions in sterling."

Stiff upper lip. The British, quite naturally, are keeping a stiff upper lip. They are aware of the rumors, but scoff at the notion that devaluation is inevitable. They feel that the current outflow of capital and the consequent decline in the dollar price of sterling are simply a reversal of the huge 1960 influx, a reversal that has long been expected.

As the British see it, such a short-term outflow could not cause serious trouble. U. K. gold reserves are over £1-billion, and last year Britain deliberately built up her drawing rights in the International Monetary Fund by clearing off all previous debt and making a voluntary gold payment. In all, the U. K. could draw as much as £871-million ($2.4-billion) from the IMF to meet a speculative run.

European entente. They also point to the series of secret agreements that have been worked out among European central banks for cooperation in case of a currency crisis. These arguments have grown out of the monthly meetings of central bankers at Basle (BW—May6'61,p34) and are designed to support a currency under speculative attack.

But this is no ironclad guarantee. In fact, to protect themselves against possible devaluations, the central bankers have worked out a scheme of "currency guarantees." Thus, at the very worst a European central bank holding sterling on the day after a devaluation would get its money back at a rate no lower than $2.78 to the pound, which is the present lower limit under IMF rules.

Moreover, the Bank of England apparently made an important additional concession at the Basle meetings: In the event of a devaluation, it would treat investments in U. K. Treasury bills as equivalent to cash, with the same currency guarantee. This has reportedly attracted several central banks, for it represents the only way to get a dollar guarantee on investments in London without incurring the cost of hedging the transaction by selling sterling forward.

In addition, the Basle negotiations have aimed at building machinery for coordinating monetary policy between countries over the long pull. The drive behind this scheme—details of which are still unclear—actually has come from the Federal Reserve, which has been sitting in on the Basle talks. Apparently the U. S. aim has been to supplement already existing machinery, while still permitting defensive measures by a country when threatened by a critical speculative attack.

Cure needed. Despite the progress made in Basle, bankers remain concerned. The fear is that the British—with help from other European countries, plus strengthening of the IMF through one means or another—may be able to postpone, perhaps indefinitely, fundamental measures required to put their balance of payments in order.

London's Financial Times puts the problem this way: "The necessary surplus will not be quickly achieved. Exports are rising very slowly and will probably not rise much faster until world trade as a whole begins to expand. Imports are falling only gradually, and may soon cease to fall if home production begins to expand. The payments deficit is now much more serious than the outflow of short-term capital which has uncovered it."

The fact is that apart from measures to help ease short-term pressures, the British government has done little to correct basic weaknesses. These include a lack of drive in exports, and union bargaining procedures that promote constant wage-cost inflation. These troubles will be all the more severe if Britain should join the Common Market.

Safe for now. Nonetheless, most bankers remain firmly convinced that, for the present at least, sterling is safe. As one foreign exchange man put it in New York this week, "The British have the will and way to put their house in order, but the time isn't ripe—politically—for Macmillan to move yet.

Power failure raises mayor's hackles

The failure of two circuit breakers produced a giant short circuit in New York City last Tuesday, blacking out five square miles of the city, including half of Broadway (picture). It was the second major failure in two years, and the city's impatience with huge Consolidated Edison Co. of N. Y. was obvious. In a tone many citizens would have liked to use, Mayor Robert F. Wagner asked the Public Service Commission to investigate "the adequacy of Con Ed's present and future plans" for expansion, then called on Gov. Nelson Rockefeller "to direct the PSC to respond."

For its part, Con Ed says that it is spending $300-million a year trying to keep up, and that it plans to spend $1.15-billion on expansion by 1965.

Former CEA chairman Arthur F. Burns has taken up the cudgels for the GOP against the Administration's views.

Present CEA chairman Walter W. Heller defends CEA thinking, says Burns misreads some CEA statements.

Debating over economic policy

Disagreement comes out in the open in public exchange of views as Burns charges the current CEA with a New Dealish "stagnation theory" about pump-priming

A complex controversy—with important implications for national economic policy and for politics—flared up this week between Walter W. Heller, chairman of Pres. Kennedy's Council of Economic Advisers, and Arthur F. Burns, first chairman of Pres. Eisenhower's CEA (pictures).

The Heller-Burns debate has been going on behind closed doors in sessions of Pres. Kennedy's Advisory Committee on Labor-Management Policy, but it now moves into public view.

Burns' blast. Burns, president of the National Bureau of Economic Research and a professor at Columbia University, is increasingly assuming the role of chief economic policy spokesman for the liberal Republicans. He fired his first public salvo in a speech at the University of Chicago a few weeks ago (BW—May6 '61,p112).

Burns accused Heller and CEA of espousing a "new stagnation theory" —a revival of the New Deal doctrine of the 1930s, advanced particularly by Alvin H. Hansen of Harvard, that the U. S. economy suffers from an exhaustion of investment opportunities that would have to be remedied by a sharp stepup in federal expenditures and, if necessary, sizable budget deficits.

Burns concedes that Heller's and CEA's "stagnation theory is gentler and less pessimistic than Hansen's." Indeed, Burns went on, it had to be regarded as a "gay and optimistic theory" in the light of still older stagnation theories such as those propounded by Friedrich Engels or Thorstein Veblen.

Nevertheless, Burns thought that he detected a close family relationship to earlier stagnationism in CEA's assertions: "Economic recovery in 1961 is far more than a cyclical problem. It is also a problem of chronic slack in the economy—the growing gap between what we can produce and what we do produce. . . . Especially since 1955, the gap has shown a distressing upward trend."

Burns' paper was quickly snatched up and largely written into the minority (Republican) views in the Joint Economic Report (BW—May6 '61,p32).

Heller's retort. Heller was not slow to respond to Burns' charge. First in a speech before the Loeb Awards luncheon in New York on May 18, and again last weekend in an analysis for Sen. Paul H. Douglas (D-Ill.) of the Joint Economic Committee, Heller vigorously protested the "stagnationist" label, even with such qualifying terms as "gay" or "optimistic."

Heller, in fact, insisted that he and Burns had four major areas of agreement:

1. Burns had given three mutually reinforcing explanations for the short and incomplete 1958-60 recovery: the violent shift of the federal cash budget from deficit in 1959 to surplus in 1960; excessive tightening of money and credit by the Federal Reserve; and confusion and loss of momentum following the steel strike. Heller said CEA agreed with those views and had repeatedly said so.

2. Heller considered that Burns had accepted CEA's position that weak aggregate demand, not an

unyielding core of structural unemployment (BW—May13'61,p154), was keeping the economy from getting back to a 4% unemployment rate.

3. Heller reminded Burns that he had applauded the Kennedy Administration for many of its anti-recession programs and for recognizing at least the need to revise the tax laws to stimulate private investment. "Considerable agreement in prescription," said Heller, "reflects considerable agreement in diagnosis."

4. Even though Burns criticized CEA's estimate of the "gap" between actual and potential GNP, Heller found that Burns agreed, in any event, that there was a gap.

But, there, said Heller, "agreement ends, controversy begins, labels are attached."

Not stagnationist. Heller insisted that the "secular stagnation" doctrine was wholly contrary to CEA's views. The distinguishing feature of the stagnationist theory of the 1930s, in Heller's view, was pessimism about the prospects for high private investment, fear that full employment in a mature economy was impossible unless private consumption and government spending plugged the gap left by a decline in investment opportunities.

CEA today, said Heller, has no such views; on the contrary, it has sought to show that our economic potential has been growing throughout the postwar period at faster than historical rates. To accelerate performance to the potential, however, CEA wants the U. S. to become "a high-investment, high-research, high-education economy."

Talk of gaps. Admittedly, said Heller, CEA had talked much about "gaps." He produced data to show that, measured in different ways, the gap between the actual and potential output of the economy in the fourth quarter of 1960 was about 8%. But, he added, CEA does not hold the view that the gap is "endemic" or that it would not give way to "standard fiscal and monetary measures to expand demand."

Burns, said Heller, had simply misread CEA's statements. Far from blaming the gap on a "retardation of investment," CEA had tried to make it clear that it blamed the gap on a failure of total demand for goods and services, which could be remedied by some combination of easier money, higher government spending, or lower taxes.

Current policy. What the quarrel between Burns and CEA really came down to, said Heller, was a difference over current economic policy, particularly over the degree and duration of measures to stimulate the economy.

Burns had made clear his view that "we would be courting inflation and a gold crisis if we now arranged new governmental spending programs so that they would mature when the economy is already advancing without them." And Burns had based this view on his forecast that "full employment may well be reached 15 or 18 months from now," when the delayed impact of government outlays will be felt.

Still remote. Heller said it is "highly improbable" that we would reach full employment as fast as Burns expected. According to fresh CEA estimates, full recovery by the third quarter of 1962 would require a 14.8% increase in real GNP over the current quarter. "Recovery has not proceeded at this pace in any comparable postwar period of expansion, except in 1950 under the stimulus of the Korean conflict," said Heller.

On the contrary, Heller suggested, full employment is farther off than the end of 1962, and some degree of continuing slack in the economy will provide "an opportune occasion for initiating programs of high national priority which have been waiting for room in the government budget and in the economy."

CAB to act as matchmaker

In move on ailing Northeast Airlines, the agency make it clear that vagaries of the market place will no longer be controlling factor in mergers

The Civil Aeronautics Board this week embarked on a program that may have profound implications for the airline industry.

It has ordered an investigation into whether the financially ailing Northeast Airlines, Inc., should be "integrated" with another airline through "merger, consolidation, acquisition of control, route transfer, or in any other lawful manner."

It declared that "any consolidation must promote—not hinder—continued progress toward a competitive and well-balanced transportation system."

Master plan. Apparently the board is going to lay down a master plan of commercial airline development. While it has no power to force two airlines to merge, it can put the industry on notice that in general only those mergers will be approved that conform to the grand design.

The question now is: How much regulation should a private industry have? Should the government try to inject health into a sick carrier at the expense of competitors?

Case in point. The recent history of Northeast is a case in point. Just over five years ago, Northeast was a tiny airline with a route from New York to Boston and from there to most of New England. In 1955, its gross income totaled $10-million, on which it had a profit of about $380,000 after a subsidy of $1.6-million.

It applied for a certificate to fly south from New York to Philadelphia and Washington and thence to Florida. If it got the route, it said, its revenues would amount to $31.3-million and it would make a profit of $4-million. Most important, it would no longer need a subsidy.

The board, as part of its long-time program of strengthening the smaller lines, awarded Northeast a Florida certificate for five years.

By now, Northeast has grown to a respectable size. It has begun offering more seats in pure jet planes to Florida than either Eastern or National. It has received no subsidy since 1956.

Still losing money. But all this adds up to financial trouble. In 1960, Northeast had an operating loss of $6-million on total revenues of almost $38-million. In the first quarter of 1961, it had an operating loss of around $800,000.

Now it has applied to CAB for a permanent certificate to Florida, and both Eastern and National intend to fight it. They contend that there isn't enough traffic to support three airlines; both are losing money.

PROTECTION IN DEPTH

How it helps cut compensation costs

Homefront fighter in the war on disability

Liberty Mutual's protection in depth includes many specialized activities that help speed an injured employee's return to work. Two fully-staffed rehabilitation centers, medical advisors and *encouragement* in the person of rehabilitation nurses are well-known examples.

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In business

BW

Congress gets plans to reorganize Maritime Board, Home Loan Bank

Plans to reorganize two more government agencies have been sent to Congress by the White House; both will go into effect in 60 days unless Congress takes negative action.

The Federal Maritime Board, a three-man agency, is abolished. A new five-man Federal Maritime Commission takes over the board's functions of regulating shipping rates and practices. The Commerce Dept. takes over subsidies and efforts to promote the merchant marine.

The Federal Home Loan Bank Board shifts its overall management duties to the single hand of its chairman, leaving the board as a whole free from day-to-day operations.

Action urged in freight car shortage; Pennsy toys with pipeline plan

Congress has been urged to do something about the worsening shortage of railroad freight cars. This came in testimony before a Senate Commerce subcommittee considering a bill that would empower the Interstate Commerce Commission **to boost the daily rentals that railroads pay each other for the use of freight cars that they exchange.** Proponents of the measure argue that the present \$2.88-a-day charge is too low to make the owning of cars attractive.

The Pennsylvania RR is studying the feasibility of entering the **oil pipeline business.** The proposal is to use the railroad's right of way for a pipeline that would supply aviation gasoline to Baltimore's Friendship Airport and to Washington's National Airport, Andrews Air Force Base, and Dulles International Airport. The business is now largely handled by truck. If the Pennsy decides to go ahead it will be the first Eastern road in the pipeline business.

Court upholds AEC's building permit for nuclear reactor in Michigan

The Atomic Energy Commission and a group of electric utilities breathed easier this week after the Supreme Court upheld AEC's right to license a Michigan developmental reactor in two stages—construction and operation. Three AFL-CIO unions (the Electrical Workers, the Auto Workers, and the Papermakers) had protested that **AEC had violated its own rules by granting the construction permit on less explicit safety assurances than it would have required for an operating license.** They said the reactor was too close to populous Detroit and Toledo.

For AEC, the court ruling meant that its whole licensing procedure had survived the union attack.

For the utilities, it meant getting off a serious hook. Construction is far advanced on the \$80-million reactor and the union attack threatened the investment put up by Detroit Edison Co., 13 other utilities, and seven manufacturing companies.

Detroit Edison will operate the reactor, if AEC grants the final license.

Meanwhile, AEC received some bad news from its committee investigating the fatal reactor blast at Arco, Idaho, in January. Among other things, the committee reported that **there was considerable "ambiguity" as to who controlled safety** at the reactor and that AEC personnel had been lax in inspecting the machine.

Levitt returns to New York area, but development scale is smaller

Ten years after he finished the last house of his huge Levittown (L. I.) development, mass builder William J. Levitt is starting another development in metropolitan New York. This time he plans 1,300 homes on a 500-acre tract in New Jersey's Matawan township, across Raritan Bay from Staten Island.

The houses will be in the \$16,000-\$25,000 range, each with year-around air conditioning.

The new project marks a switch in Levitt's policy. Early developments were much larger; now the builder will seek economy-through-size by running several smaller projects at one time. Levitt says he is considering other tracts in northern New Jersey for 6,000 or more houses, in addition to work in progress in South Jersey and near Washington, D. C.

Business briefs

Republic Steel Corp. and Island Creek Coal Co. have formed a mining company, Beatrice Pocahontas Co., **to develop Island Creek reserves** near Grundy, Va. Island Creek will manage the new company, and is subleasing the land to Beatrice Pocahontas. The project will give Republic Steel a supply of coal for coking.

National Homes Corp., major U. S. producer of prefab houses, will enter the foreign market. National's prefabs will be sold and erected in Switzerland, Germany, France, and Italy by Lear, Inc., the diversifying maker of aviation equipment (BW—Dec.3'60,p118). The first houses will be in the \$28,000-\$30,000 class, with other types to be supplied later.

Crude oil imports east of the Rockies have been cut to the lowest level since mandatory controls were imposed two years ago. Imports of crude and unfinished oils for the area have been set at **670,933 bbl. per day for the July-December period** by the Interior Dept., down from 704,328 bbl. in the comparable months last year. West of the Rockies the new limit will be 230,298 bbl. per day, down from 263,303 bbl.

Washington outlook BW

June 17, 1961

Back ailment forces look at JFK's work load

Pres. Kennedy's physical vigor and stamina are as much a part of his style in the White House as his political convictions.

This makes his renewed back troubles Topic A despite every effort by Kennedy to pass the matter off as a minor ailment.

Until slowed by the back pain, Kennedy had driven himself with virtually no letup. **On top of pushing a sizable domestic program, he took on the added burden of foreign travel and personal diplomacy.**

Friends and staff aides wondered how long he could keep it up. Critics said he was moving so fast that sound judgments were impossible.

A back twinge he felt May 16 while turning some dirt at a tree planting ceremony in Canada finally caught up with Kennedy, and is causing a new look at his work load.

For three weeks Kennedy kept the pain a secret from the public and even from his staff, saying nothing even during the gruelling trip to see Khrushchev in Vienna.

When he was forced onto crutches last week, secrecy was no longer possible.

Even this week Kennedy continued to keep details from his press secretaries. As a result all kinds of speculations circulated.

One theory—that it is actually a slipped or ruptured disk—is heatedly denied. An ailment of that type is what put him in the hospital for a series of operations a few years ago, and complications stemming from these operations put his life in jeopardy at one time.

Official diagnosis: muscle strain

The official diagnosis is still lumbosacral strain, a common lowback muscle strain.

But its victims don't usually resort to crutches. And they are not hoisted in and out of airplanes as Kennedy was early this week on his flight from Palm Beach to Washington.

By the end of the week, if recovery goes as predicted, Kennedy will discard the crutches. **But speculation about whether his back will force him to a slower pace will continue.**

If he begins to assign more details to aides, depends more on Cabinet members to push legislation, gets away more often from Washington, it will mean a fundamental shift away from his original concept of the job as pretty much a one-man show.

McNamara takes a round from his military critics

Defense Secy. Robert S. McNamara wins a round in his battle with the military brass.

Professional military men complain that McNamara and his circle of civilian advisers are making major strategic decisions on their own, either overriding or simply avoiding the Joint Chiefs of Staff. The complaints originate chiefly in **the middle echelon of brass—one-star generals and colonels for the most part.**

The anti-McNamara forces inspired stories of an impending clash in the professional military press. Rep. Carl Vinson, powerful head of the House Armed Services Committee and long a supporter of the military as against civilian officials, said he was investigating.

But the rebellion may be foundering.

Washington outlook Continued

So far the Joint Chiefs have refused to give official status to the complaints, though a bill of particulars was reportedly handed to them.

McNamara has kept the middle echelon of Pentagon military officials in constant turmoil by issuing orders for more than 140 special projects and studies. These are old stories in the Pentagon. But McNamara has added a gimmick of his own—he puts a firm deadline on each study.

If the recommendations he asked for are late, his civilian aides put on the pressure. This seems to be the source of much of his troubles.

Pentagon seeking new contract to replace cost-plus

The Defense Dept. is seeking a new type contract for defense industries—one that will penalize lax management and allow extra profits for a good job.

The effort is to break away from the cost-plus type of contract that now accounts for 43% of defense procurement compared to the 13% of 10 years ago.

Cost-plus has been used increasingly because it is the most obvious way to finance research and development projects.

But Congress is increasingly critical of the method, suspecting that it encourages both the military and the private contractor to let costs run wild.

It's possible that new standards of performance will be worked out with the aid of computers. If the contractor can do better than an assigned yardstick in terms of time or manpower, or can demonstrate a gain in the quality of the product, he may qualify for a bonus. If costs run higher than the yardstick, he may be penalized.

There has been no decision on what the new method will be. But Deputy Defense Secy. Roswell L. Gilpatric last week told a group of defense contractors that a change "can and should" be made. A task force of the Aerospace Industries Assn. is looking into the problem.

Kennedy gets fill-in on economy

Kennedy summoned his economic high command to a meeting in the White House this week amid rumors that some of his advisers were pressing the Federal Reserve Board to lower interest rates.

The meeting, however, developed no fireworks.

Instead, there was agreement on the generally healthy look of the economy and a consensus that the Federal Reserve is hitting about the right note when it comes to the degree of credit ease.

Federal Reserve Chmn. William McC. Martin and Chmn. Walter Heller of the Council of Economic Advisers—the officials who are probably furthest apart on credit policy—both attended, along with Treasury Secy. Douglas Dillon, Under Secy. Robert V. Roosa, and Assistant Budget Director Robert C. Turner. Kennedy will see pretty much this same group in another month.

Automated highway may get approval

A 100-mile section of automated highway, on which cars would be driven by electronic devices, is being considered favorably by the Administration. The driver would not have control of his car on the experimental stretch.

A special study group has told the White House such a road is technically feasible. Half a dozen companies have been doing research on the necessary controls.

By the end of this month, the study group is supposed to recommend a specific stretch of highway, probably one between two cities. Later the idea would be tried on a section of expressway inside a major city.

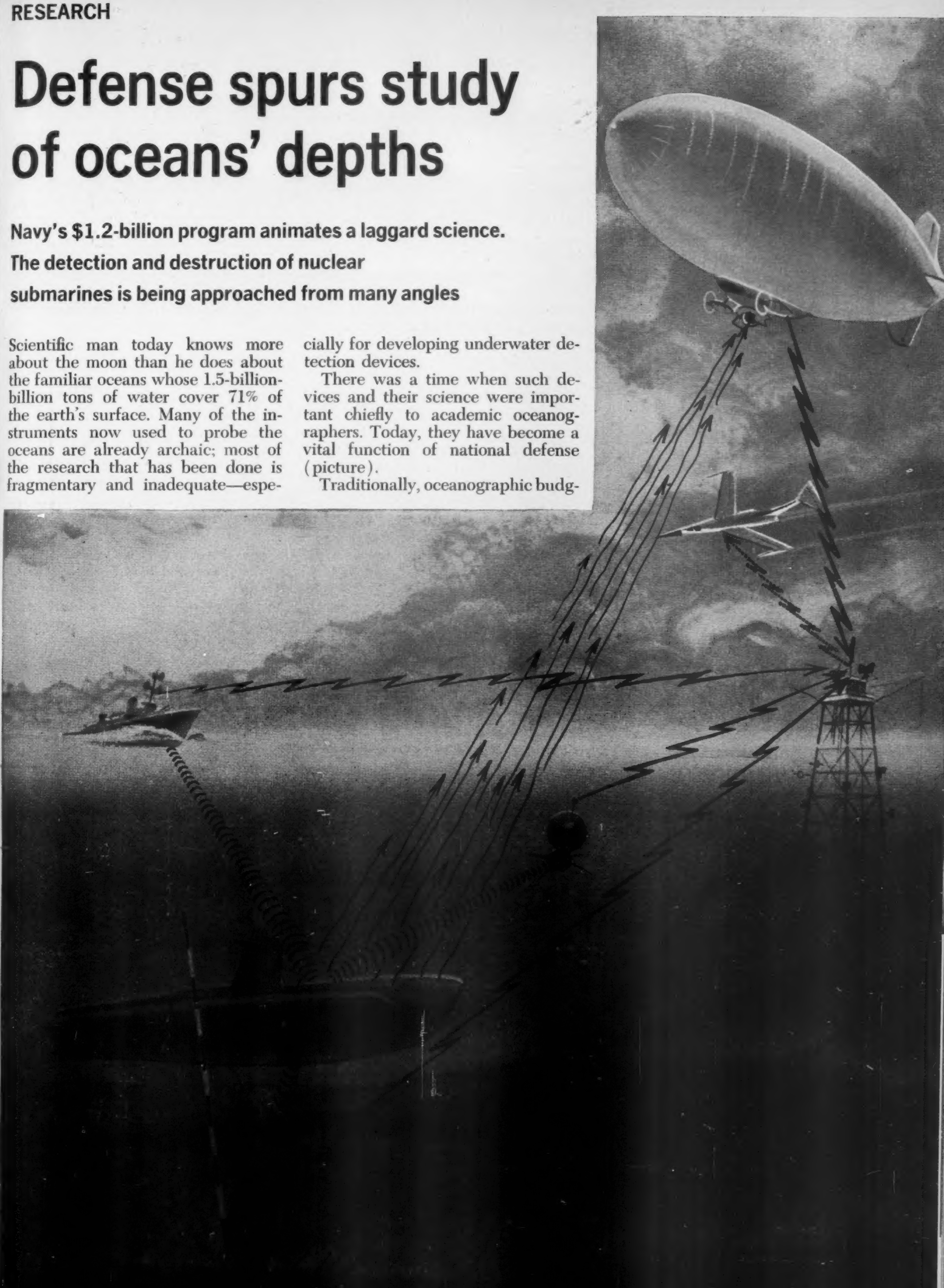
Defense spurs study of oceans' depths

Navy's $1.2-billion program animates a laggard science. The detection and destruction of nuclear submarines is being approached from many angles

Scientific man today knows more about the moon than he does about the familiar oceans whose 1.5-billion-billion tons of water cover 71% of the earth's surface. Many of the instruments now used to probe the oceans are already archaic; most of the research that has been done is fragmentary and inadequate—especially for developing underwater detection devices.

There was a time when such devices and their science were important chiefly to academic oceanographers. Today, they have become a vital function of national defense (picture).

Traditionally, oceanographic budg-



ets have been skimpy. In fiscal 1960, the government—which finances 80% of U. S. underwater research—budgeted it for a mere $39-million, including the big item of research ships.

Strictly military research under water has fared somewhat better. Fiscal 1961 provided $1.2-billion for anti-submarine warfare, about the same as the previous year. But most of this went for new submarines and anti-sub aircraft. Research and development as such got only $239-million.

This comparative lack of governmental interest in basic underwater research has worried scientists. Two years ago the National Academy of Sciences set up a Committee on Oceanography, and stressed the need for more funds.

Sudden shift. Scientific pleas fell on deaf ears until very recently, however, when the military need for scientific information was sharply spotlighted. The change has been sudden; right now Pres. Kennedy is leading top officials in calling for increased effort in underwater studies.

Already, the Navy has set up a 10-year, $1-billion underwater research program called Tenoc-61. All over the country, makers of equipment are rushing development of new instruments. Behind the sudden urgency lie two factors:

- Informed reports that Russia is building up its fleet of nuclear-powered submarines.
- Clear evidence in U. S. war games that submarine detection is lagging far behind the development of the subs' own capabilities. U. S. subs have carried out mock missile attacks virtually unhampered by our best defenses, and military men don't doubt that enemy nuclear subs could do the same thing.

Scientists break down underwater research into five main fields, but work in all five involves much the same elements of study: depth, temperature, sound velocity, density, salinity, conductivity, light level, noise level, and composition. The five broad fields are these: military concerns; hydrodynamics; geology; biology; and chemistry.

Variables. In all these fields and factors lie important variables, which the scientist must learn to measure precisely before he can answer such questions as: What in water makes it possible to detect a sub? How can detection equipment be made more accurate and reliable?

To start with, there are three chief things about water that complicate underwater detection.

- Water is opaque to electromagnetic radiation, both visible and in the frequencies normally used for detection in the air.
- Water is heavy, which makes it difficult to handle conventional instruments at great depths.
- Ocean water is extremely corrosive: "Everything wears out underwater," says an oceanographer.

Drop a rock overside from a boat, and you'll find how opaque the water is. Normally, visibility is limited to 10 ft.; at best, underwater photography has a 50-ft. limit.

As for electromagnetic radiations, they become so attenuated in water that researchers usually retrieve experimental data by wire. At San Clemente Island, Navy frogmen laid 140,000 ft. of cable to relay data to land from the underwater pop-up launcher built to test Polaris missiles. The system was expensive, but worked reasonably well. But obviously, no such cable system could be used against a worldwide enemy submarine threat.

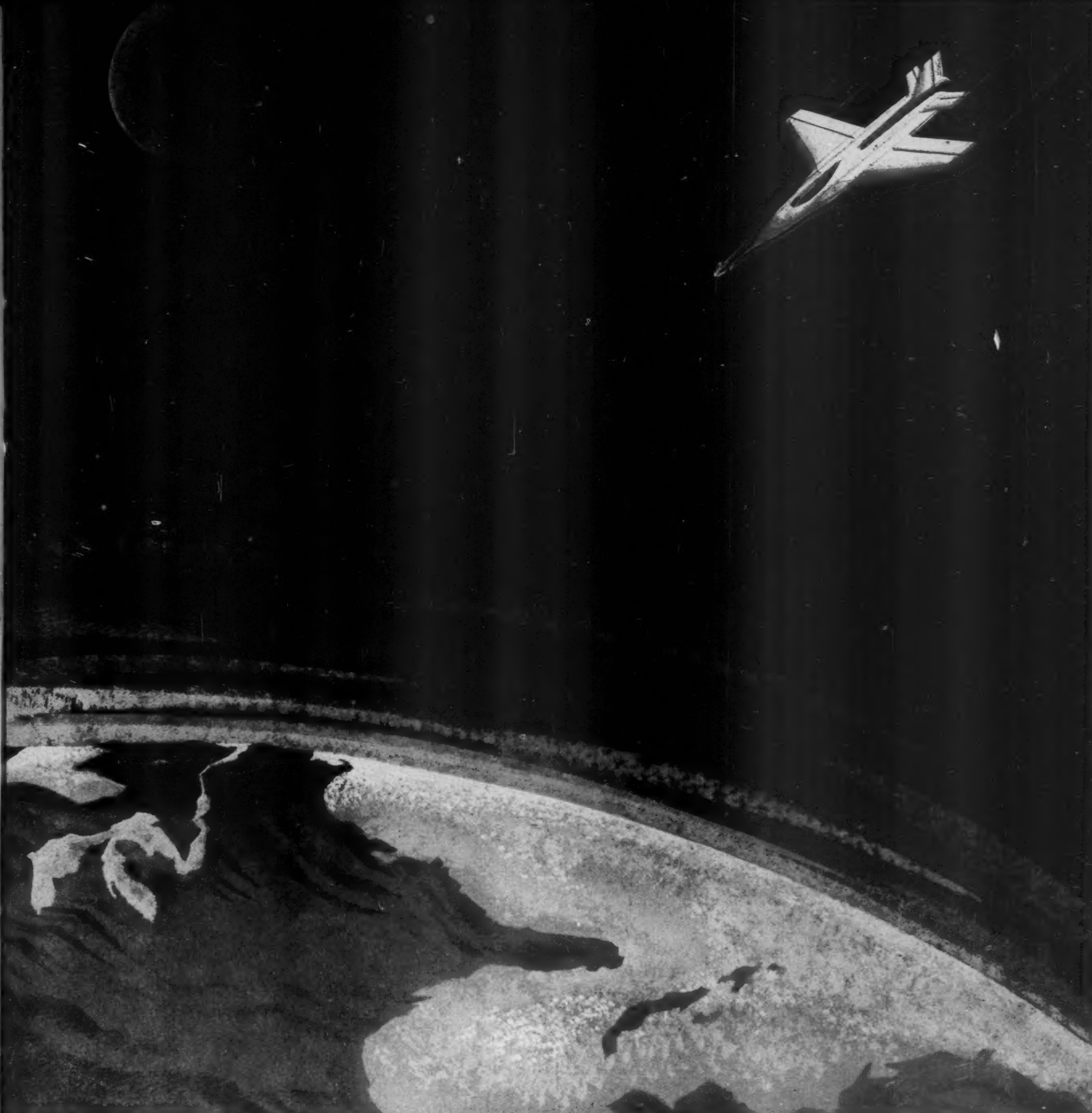
Detection. The tremendous gain in submarine capabilities has stressed the need for more knowledge. The basic technique currently used in underwater detection is sonar—sending out sounds and listening to the returning echoes. Sonar has been improved since World War II, but it's still plagued by the sound tricks played by changing depths and temperatures, by bottom echo, and the strange noises of fish.

Spokesmen say that sonar now can identify reliable target information for a range of a few miles. Beyond that, it's value is questionable, and with nuclear subs a few miles is not enough warning.

That's why the Navy is trying a whole series of underwater research programs, including basic work on passive systems—where it is not necessary to send out signals.

Transducers. Under the code name Artemis, Columbia University's Hudson labs are exploring the possibility of detecting submarines at very long range by using advanced data-processing equipment and transducers—which can convert great quantities of electrical energy into sound waves. A Texas tower (called the Argus Island) has already been set up off Bermuda to send out underwater sound waves. A specially equipped T-2 tanker, the Mission Capistrano, will steam at different distances from the tower, lowering a giant transducer (five stories high) into the water. It is hoped that this first systematic study of underwater sound transmittal will lead to the development of improved sensors.

The Office of Naval Research has farmed out to half a dozen labs a series of temperature studies, which,



it's hoped, cast light on subsurface ocean currents and on the circulation of heat in the sea.

Subsurface temperature boundaries are largely responsible for the deflection of sound waves underwater. Precise knowledge of where they are and whither they are moving could tell patrol ships where to hunt for enemy subs, and tell friendly subs where they could lurk safe from enemy sonar.

Passive detection is being studied in the Navy's Project Clinker, where real progress is reported unofficially in the use of infrared for detection. The theory is that a sub moving deep in the ocean causes a change in the temperature at the surface; spotting the changes could guide the hunters. Barnes Engineering Co., working for the Navy Hydrographic Office, has built a miniaturized airborne radiation thermometer that is said to measure surface temperature from a low-flying plane to an accuracy of 0.5F. A bigger version of another infrared device is being tested from the radome of a dirigible at the Lakehurst Naval Air Station. It is said that the larger version has spotted a difference of a few thousandths of a degree between the water temperature in a sub's wake and in the cooler surrounding water.

If the big Lakehurst infrared detector, which gets its extra zip from the design of its mirrors, can be scaled down to a size that a plane can carry, it could mean a huge gain. A low-flying plane could search much farther and faster than a ship using sonar techniques.

Sea bottom. The Navy is trying to fill in another big gap in underwater science with its AUTEC (Atlantic Underwater Test Evaluation Center), which will eventually set up instruments over an entire 20- by 100-mile section of the Atlantic floor, just east of Andros Island in the Bahamas. With an initial budget of \$100-million, AUTEC will provide a mammoth test range for anti-sub equipment. It will also tackle basic research.

Lockheed Aircraft has a \$350,000 contract to study the requirements for the range. The report is due by September, after which an industrial contractor will be picked to run the facility, which is expected to be in use between 1963 and 1965.

More immediately, two giant instrumented buoys should be in service later this year for acoustic research. The Navy also plans to build an aluminum submarine designed to operate at depths of 15,000 ft., with a 45-mile range on the ocean floor under its own power.

Communications. Any system to detect and destroy enemy subs must be based on sure communications. No such method exists today to link subs with surface ships or planes in a concerted effort. Even the Polaris subs could not communicate with airborne support directly. They can receive messages from surface units but cannot reply without revealing their position to the enemy.

Only the broadest-scale approach can hope to solve this and other problems, with maximum participation by industry. A number of companies are already deep in research, supported by the Office of Naval Research and other agencies.

For example, the huge transducer system that will make Artemis a working reality is being developed by Massa Div. of Cohu Electronics, Inc. Brute force is the approach. A transducer works something like the cone of a loud speaker in converting electricity into sound waves. Enormous amounts of electricity are needed to overcome water pressure and send the waves for more than a few miles.

Because attenuation losses are less at low frequencies, the tendency has been to try lower frequencies and longer wave lengths. But there are mechanical difficulties to building a transducer that won't fracture at this level. Bendix is said to have tried to beat this by polarizing the material out of which the transducer is made.

Massa has taken a different tack. Its huge transducer is made up of many small ones, put together in modules. The resulting unit operates in the audible (15 cycle to 20,000 cycle) range, with a wave length that runs from a few feet to several hundred feet. Its range of operational effectiveness is secret, but informed guesses are that it should be able to tell submerged barrels from a submarine up to at least 100 miles.

A defense official points out that this transducer has the advantage of being able to ignore objects smaller than its own wave lengths, because it operates at very low frequencies. This makes the filtering out of extraneous noise much simpler and more reliable.

Transmitters. The Martin Co. has broken with tradition with another idea for sub detection. Its plan, still under initial tests, is a series of continuously emitting nuclear-powered transmitters anchored on the ocean floor at depths of 15,000 to 20,000 ft.

Martin's theory is that sound passing through water varies, chiefly in the first 300 ft. below the surface. There is much less interference below this level. The idea is to detect upwards rather than downwards.

The concept has its flaws. **End**

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Minute Maid fresh orange juice introduction is subject of conference with Rosser Reeves (left) of Ted Bates & Co.

Hi-C summer promotion is discussed at luncheon with Vic Piotrowski (center, right) of Dancer-Fitzgerald-Sample, Inc.

Grocerymen are briefed by Boerner on Minute Maid's advertising and distribution plans at flossy cocktail party.

Food broker Howard C. Boerner talks with H. G. "Ski" Dic
Florida as the company's new fresh orange juice is launc

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president of Minute Maid Corp., in York market area.

Detail man from Boerner organization sets up special display of Hi-C for Manhattan retailer. This in-store work is one of the key roles brokers can play.

MARKETING

Food brokers thrive on local sales push

With competitive pressures and distribution costs rising, processors are turning to independent middlemen to provide sorely needed local merchandising services

These pictures show a food broker in action. He is Howard C. Boerner, 46-year-old owner of an 85-man business headquartered on Long Island.

Five days a week his men call on wholesalers, chain buyers, store managers, and institutions to push the products of the manufacturers he represents in the huge metropolitan New York area.

For that he gets anywhere from 3% to 5% on every sales dollar. His volume now: Between $40-million and $50-million. His goal: $200-million by 1965.

The food brokerage business is ancient. It is the traditional way many products—from soup to nuts—went to market. The broker acted for a principal, or manufacturer, often specializing in one commodity. He sold to wholesalers or to big chain buyers, but performed little service beyond seeing the product was available. His effectiveness in the marketplace came largely through personal associations and knowing as much as possible about specific commodities.

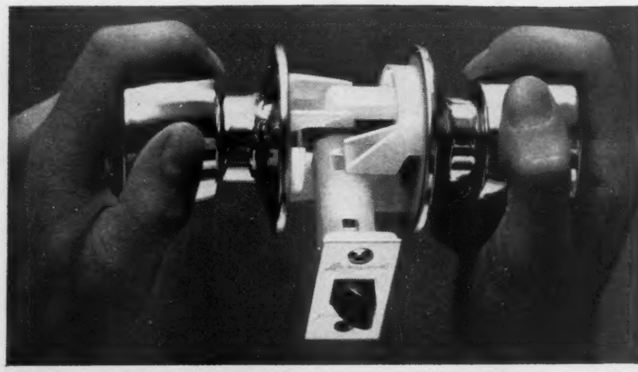
But in the past few years it has taken on new vitality, until today it is one of the fastest growing parts of the food distribution process. Though the name's the same, food brokerage as practiced by men like Boerner is a far cry from the days of the walnut specialist or the local tomato king with a one-man or two-man operation.

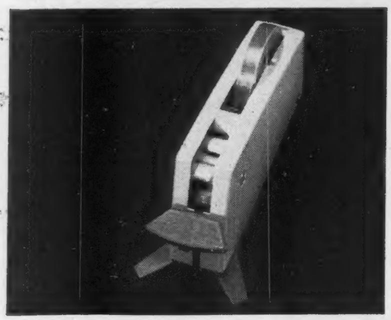
Why the revival? There are several reasons, but as you might expect they all add up to competition. Food processors—and everyone else who sells through supermarkets—are finding it increasingly difficult to maintain their volume at a reasonable profit.

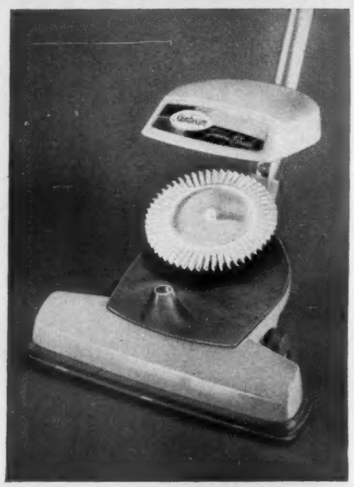
There are a vast number of products on supermarket shelves, with more new ones fighting for shelf space every day of the year. Private labels, too, have national brand manufacturers scurrying to keep their markets sold. Then there is the growing complexity of the marketplace itself, especially in the big metropolitan areas such as New York, where there are more than 20,000 food outlets alone.

Distribution costs. Besides all this,


MILLERS FALLS







the costs of maintaining an adequate distribution force have soared. "Five years ago," says Boerner, "I could put a man and a car in the field for $5,000 a year. Today it costs anywhere from $7,500 to $8,000. Hell, it takes $17 per week per man just to pay tolls on New York's bridges and tunnels." He estimates that distribution costs—not counting advertising—run as high as 13% for some manufacturers.

This jump in costs has hit just at the time when supermarkets, also besieged by higher costs and price pressure (BW—Jun.4'60,p45), are demanding more and more service from the manufacturers. Unfortunately, the days are past when higher prices could offset the higher costs.

These two conditions, hardly peculiar to the food business, have forced manufacturers to recognize the need for (1) strong localized marketing efforts, and (2) a method for doing the job efficiently. As Boerner puts it: "You gotta be current; you gotta be local."

I. Man for the job

The food broker has jumped into the breach. More and more manufacturers are agreeing that he can do the job and are switching to a broker from their own distribution setups. Watson Rogers, president of the National Food Brokers Assn. with some 3,000 members, says scores of major companies are seeking information on the food broker business.

Some manufacturers, as the result of acquisitions of small companies which had been using brokers, have discovered their effectiveness and continued their use. And they have also shifted some of their distribution of major products to brokers. General Foods, for example, has handed Birds Eye frozen products to a broker in the Boston area. Simoniz has shifted to brokers, too.

No guesswork. Most attractive, perhaps, is the fact that a producer, once he has established a target volume, knows in advance exactly what his distribution cost will be. He makes the best deal he can with a broker—3% to 5% of the sales dollar in the broker's area—and that's the end of that. What's more important, he pays nothing if the sales aren't made. That's not the case with your own field force, which must be carried as overhead whether or not sales are being rung up.

By the rules of the business, a broker is bound to avoid what every retailer or wholesaler dreads—being overloaded with merchandise. Since he can't take title to any products, his only motivation is to get the end sale. Once he loads a buyer or retailer with merchandise that won't move, he's out of business there. Conversely, though, he has to make sure that the product is adequately stocked so that sales, his only payoff, aren't lost.

Local market. Besides this, most companies can't afford the kind of detailed attention at the local market which current competition requires for many products.

A typical chain buyer today is far too busy to give much time or consideration to any one product. He can't keep track of much more than his IBM record of how products are moving. "Buyers for chains and wholesalers," says Boerner, "are blase in self-defense. You got an ad in Life? So what? Here's the order. Get out. Next?"

What's more, with the proliferation of products, deals, special promotions, the weakest link in the distribution chain becomes the communications between the buyer and the store manager. So the manufacturer himself has to make sure that his advertising, promotion, and distribution plans are coordinated. This means sending men frequently to countless offices and stores to see that what is planned is being carried out.

All these competitive factors, which Boerner and others like him saw developing, have changed the operation of food brokerage. Not too long ago brokers were languishing as the result of the mergers of food processors into big concentrated operations such as General Foods and the establishment of direct selling operations by manufacturers.

Now the pendulum is swinging back—but only because brokers have begun to provide the local merchandising services that are so vital to mass marketing today.

II. Into the breach

Boerner himself got into the business from Minute Maid Corp. (now a subsidiary of Coca-Cola) where he was sales manager until 1953. He had been on the prowl for top-notch brokers for Minute Maid, found that there weren't many performing the kind of eyes-and-ears merchandising that a manufacturer needs to keep tabs on the marketplace.

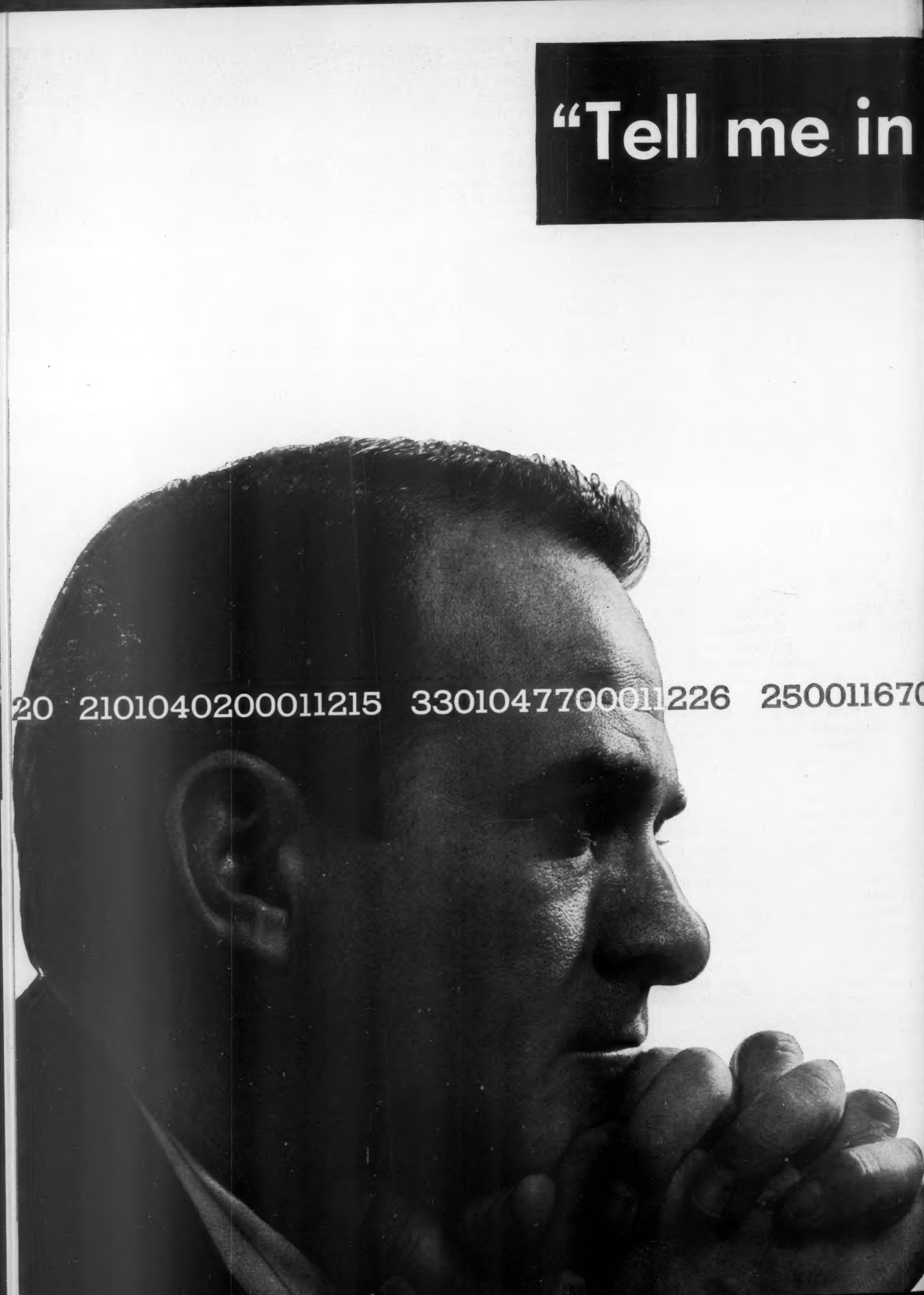
As a result, he set up H. C. Boerner Co., Inc., on Long Island, took on the job of building an organization in metropolitan New York.

Today his company is set up so that his retail people are calling every 10 days on some 3,000 stores (doing about 65% of the metropoli-

Broker's man gets store's customers . . .

. . . to taste new, fresh orange juice . . .

. . . share reactions with neighbors.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tan area business). His original specialty was frozen foods, but he has now branched into grocery items and other fields. He represents such brands as Star-Kist tuna, College Inn, Sara Lee, Snow Crop, Swift's, Stouffer's. He didn't win the Minute Maid account until 1957, starting first with frozen concentrate. He now handles all its products, including the new Dairy Pure orange juice in competition with the powerful Tropicana and Sealtest brands. Just recently he got the Angostura bitters account: "It walked right in," he says.

Organization. Boerner's organization includes three divisional vice-presidents for frozen foods, groceries, and dairy and institutional sales. Each has account managers, much as an advertising agency, for every product handled. Besides overseeing one or two products, they are responsible for selling all of Boerner's line of, say, groceries, to specific chains or distributors.

A retail manager oversees four regional supervisors for Westchester-Connecticut, New Jersey-Staten Island, Long Island, and Brooklyn-Queens. They ride herd on some 50 retail salesmen and display men who are at the stores constantly.

Behind that operating force is a sales service organization that keeps retail men and store managers peppered with information about special promotions, price changes, advertising plans.

Probably the key to a successful brokerage operation is communications. That's a function that a broker must perform—to keep his principals informed about how his products are moving and where; to help the chain buyer and wholesaler maintain proper inventories at the store; to service the store manager—putting up displays, letting him know what competition is doing—so that his sales record can be improved.

"The food broker business," says Boerner, "needs a new terminology. The day is gone when all you had to do was depend on friendly buyers who would take your walnuts."

The corner store. That doesn't mean that a successful broker doesn't know the people in his market. If nothing else, that's his job—knowing who the buyers are, what stores are good, what products move where. This local knowledge penetrates deep into the market. "Our man in Smithtown, L. I.," says Boerner, "knows his neighbors who run the stores. He is in their stores; he's a member of the volunteer fire department."

Such intimate knowledge—fed back through stores to the manufacturer—holds major attractions for

food processors. Sales talent is hard to come by. "You can't get good men for $70 a week," says Boerner. A manufacturer's own salesmen, if they prove good, naturally expect promotion, and usually that means promoting them out of territories they develop.

"With us," says Boerner, "we are only as good as long as we keep good men in our local markets."

Close attention to the local scene, however, doesn't mean that modern brokerage firms like Boerner's aren't concerned with the national picture. They are—particularly through advertising agencies.

Advertising agencies. Relations between advertising agencies and brokers are a sore point in the business. The broker, in fact, has the same goal as the agency people—sales. But his job is to get the distribution channels filled so that the ad campaigns can pull the consumers into the stores and to the shelves stocked with his product lines.

Unfortunately, agencies and brokers often don't work together. Last year at the Grocery Manufacturers of America annual meeting, the NFBA and Ketchum, MacLeod & Grove ad agency unveiled a survey showing the split. According to the study, "One thing that plays back again and again is that agencies are not cultivating brokers. They are not even trying. Agency people rarely make personal calls on brokers"—and vice versa, it might be added.

Men like Boerner who have established working relationships with ad agencies believe one of their chief jobs is to merchandise national advertising and promotional material at the local level. To do that, local conditions have to be understood—and the broker can help immeasurably in determining such things as correct timing. By the same token, the ad agency can give him the kind of hard-hitting copy that will move goods.

His biggest worry, though, is size. "The first question a manufacturer asks you," he says, "is how much attention his product will get." That's one reason Boerner has established the account manager system. And even though he thinks data process systems "are killing merchandising," he also believes he can make use of them. He is establishing a simplified reporting for his detail men so that every week his account executives will know the position of his product and competing products in, say, 300 stores. "We'll have that information Friday. The account man can go to the chain buyer on Monday and tell him how he stacks up with Chain A & B."

GM's size is again an issue

Hearings open on bill in Congress to divorce auto makers from auto finance subsidiaries. It's clearly aimed at General Motors, whose bigness is under multiple attacks

A Congressional hearing opened last week on a bill that would divorce auto makers from their sales finance subsidiaries. Early testimony suggested that some ideas are brewing that could drastically alter the competitive picture in the industry.

The measure is admittedly aimed primarily at General Motors Corp., but some spectators came away wondering if the question under discussion really wasn't an old, familiar one: Is GM so big that it's in violation of the antitrust laws?

Rep. Emanuel Celler (D-N.Y.), chairman of the House Antitrust Subcommittee, has reintroduced the divorcement bill that two years ago was unsuccessful in the Senate.

Aimed at GMAC. Ford Motor Co. recently set up a sales finance subsidiary, but GM's offshoot, General Motors Acceptance Corp., is the biggest in the business and a constant target of independent finance companies.

The essence of the charge against GMAC is that, by its readymade market of GM dealers and through the huge resources of the corporation, it stifles competition. GMAC denies this on both counts. It claims that it increases competition and gives dealers reasonable retail financing terms that they can pass along to their customers.

Charles G. Stradella, chairman of GMAC, and Frederic G. Donner, GM's chairman, both appeared before the subcommittee to oppose the measure. Donner said the bill was backed by "certain sales finance companies who apparently wish to insulate themselves from the rigors of effective and fair competition."

Donner also denied that GM has any advantage over other auto makers because of GMAC. Any auto company is free to set up a finance subsidiary, just as Ford has done, he said.

Break up GM. Implicit in much of the testimony by GM's critics was the complaint that auto financing is not the only segment of the economy where GM can flex an undue amount of muscle. Significantly, some of this criticism came from Lee Loevinger, the Justice Dept.'s antitrust chief.

It's no secret that some antitrust lawyers in the Justice Dept. would like to break up GM, the nation's largest industrial complex. The government has challenged some of GM's peripheral activities—three antitrust suits are currently before the courts—but it has never launched an antitrust attack on autos, the heart of the corporation's power.

While Loevinger's testimony dealt specifically with the GM-GMAC relationship, it was easy for those listening to conclude that, at least tacitly, he was addressing himself to the broader role of GM in the economy. He indicated dissatisfaction with the way competition now stands in the auto industry.

A 'great failure.' GMAC is already operating under a 1952 consent decree. The government charged it with coercing dealers in violation of the antitrust laws. The government had originally asked that GM and GMAC be divorced, but the Antitrust Div. backed off from this demand on the grounds that it would involve a long, difficult trial.

This decree, Loevinger commented, "although it is on the books as a victory, may properly be regarded as one of the great failures of antitrust."

Further, Loevinger said, even though GM may no longer coerce its dealers to finance through GMAC, the relationship between the manufacturer and the finance subsidiary means a "built-in advantage" that has helped GM strengthen its position in the automotive and other motor vehicle manufacturing fields.

This alleged "built-in advantage" significantly plays a major part in each of the government's pending suits against the corporation. These charge that GM's bus, earth-moving equipment, and rail locomotive operations violate the antitrust laws.

Loevinger commented that the GM-GMAC association might fall into this category.

There is a theory that the government, by attacking GM's peripheral operations, and basing these attacks largely on the economic muscle of the corporation, is attempting to get a judicial opinion agreeing that, through its sheer size, it violates the antitrust laws. **End**

Help for displaced workers

Federal plan would train the unskilled left behind in the job market

Jobless coal miners in a depressed area of West Virginia lack the skills necessary to compete in other fields. The question is: Can they be trained for new jobs?

Can a blue-collar worker take over a white-collar job? Can an unemployed coal miner become a machinist, or a jobless textile worker be trained to make missiles? In other words, can a worker displaced by automation be helped to catch up with the automation age?

No one has the answer as yet. But the Kennedy Administration, facing hard-core unemployment of several million persons whose job prospects are almost gone, intends to try. And Congress appears willing to go along with its program.

Three-part package. In a series of proposals almost as intricate as the modern production methods they are designed to supplement, the Administration is asking Congress for a free hand to locate, train, and find employment for those displaced or left behind in the job market.

Congress has already approved the area redevelopment bill—part one of a three-part package—which provides for a series of loans and grants to help chronic unemployment areas to attract new industry. It has provisions to retrain the jobless for those industries. Last week, the Administration sent part three to Capitol Hill. This is a $275-million pilot program to train and provide temporary work for the heavy influx of young people—from 16 to 22 years—coming into the labor market in the next few years.

Aid for non-skilled. The middle, and most ambitious part of the package, is the Administration's manpower development and training bill to help the unemployed who already have lost out, even in healthy industries, because they lack the necessary skills to compete for jobs. The measure is currently before labor committees of the House and Senate, where the reception is favorable, although there is concern over the cost ($700-million over four years) and the extent of federal control over the nation's work force.

This latter is exactly what the Administration wants and insists it must have to solve the job problem. Labor Secy. Arthur J. Goldberg, who would run the program, emphasized in Congressional hearings last week that private industry or the states alone cannot cope with technological unemployment, though they will be asked to take a major part in the Administration's program.

Targets. A breakdown of May unemployment figures released this week shows that 1.8-million workers have been jobless for at least 15 weeks, another 900,000 have been out of work for more than six months. It is toward these workers—with priority attention to the head-of-family over 30 years of age—that the new training program will be directed.

Goldberg told the House committee the plan won't be a "cure-all" for automation unemployment, although he estimated it would mean retraining for some 200,000 workers each year. Congressional experts working on the measure say this is probably optimistic; that it can expect to help no more than 50,000 to 60,000 workers annually.

How practical? The difference, in part, is due to a vagueness not only in the specific legislation, but in what can be done with it—when and if it passes Congress this session. Indeed, there is considerable concern to what extent the particular unemployed at whom this measure is aimed are retrainable for the needed skills, and whether the jobs will be available once they are ready for them. This uncertainty is shared by both friends and foes of the measure.

Even Sen. Joseph Clark (D-Pa.), a sponsor of the legislation, questioned during hearings on the measure: "Are there really jobs you could train these people for? Is there not a danger that this will run into an enormous boondoggle in which people are being trained for skills for which there is no employment opportunity?"

Actually, those chosen for new training would come from the unemployed least susceptible to such aid; the uneducated, older workers, Negroes, youths just entering the labor market, the unskilled who are almost always the first to lose out to automation.

In essence, the Administration measure would authorize Goldberg to tap from this labor supply the workers who could successfully learn new skills in:

- On-the-job training programs where the Administration would supplement employer payments up to a $46 weekly ceiling for 52 weeks of training.
- Vocational training schools where the unemployed would be supported during training by federal

payments matching the unemployment compensation payments in their states.

Relocation problems. The plan, in addition, would allow the Labor Secretary to relocate a worker, if he chooses and if an employer agrees to hire him, by paying half the moving costs of the worker and his family. Even as this proposal was being spelled out before Congress, congressmen from depressed areas were vigorously protesting, claiming this would further deplete manpower in their regions.

During Senate labor subcommittee hearings, Bernard Blier, executive director of the Northeast Pennsylvania Industrial Development Commission, said that Scranton (Pa.) had lost 30,000 residents in the past 20 years. "We already have more churches, schools, and community facilities than we need and drawing off skilled workers would only create greater problems."

Goldberg, noting such objections during a House labor subcommittee hearing, said the relocation plan was entirely voluntary and would be used only after a worker was unemployed at least six months. As an example, he said, workers left unemployed by a plant's moving might be shifted to the new site, but only if an employer agreed to reemploy them.

What are the jobs? The Administration says it doesn't have all the answers. The bill itself provides for a broad manpower study not only to discover what jobs are presently available, but also what jobs will be needed as automation grows. "We need to know the technological changes occurring in the construction industry; how the changes in office operations will affect white-collar workers, how they are likely to affect the locations of various industries," Goldberg said. "This calls for an analysis of long-term prospects . . . as well as the outlook immediately ahead."

Administration studies show, in general, a growing demand for professional and technical employees, for service and clerical workers. They also show a decline in factory employment, particularly among the unskilled and semi-skilled. In particular jobs, the heaviest unemployment is among coal miners, textile workers, in steel, autos, and other manufacturing industries. Job prospects are prevalent in auto repair, welding, and other machine work, in electronics, in nursing, and some construction.

In some specific areas, long faced with unemployment, the breakdown is more specific. In Pennsylvania, for instance, which with a number

of other states has been operating retraining programs for the unemployed, a survey of 41 labor market areas shows that 282 occupations are increasing, that there is a continuing demand for 159 occupations, and that 237 occupations are decreasing steadily. The pattern can be projected into the future.

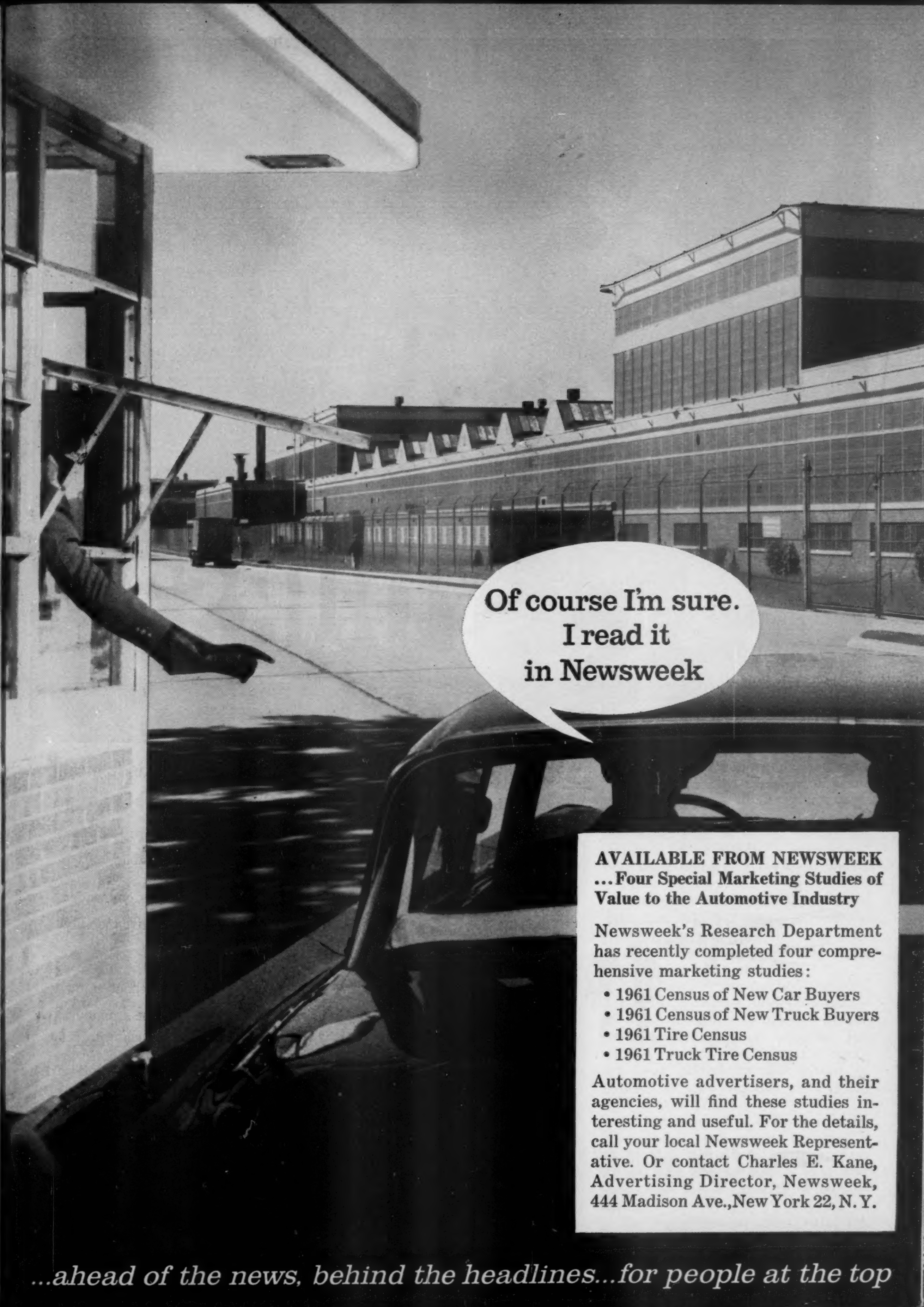
Training programs. It is this sort of information and training program that the Administration intends to draw on in preparing workers for new jobs. The federal government, through the Health, Education & Welfare Dept., has long supported vocational training programs. And in 11 states, jobless benefits may be paid to workers undergoing retraining in various ways.

The Administration proposes putting all such programs into the Labor Dept. This has created something of a jurisdictional contest. State vocational leaders, testifying on the measure, argued that HEW should retain control over educational facilities—that the Labor Secretary should not have authority to delegate what workers should be sent into vocational training programs.

Under the plan, the Labor Secretary would tap the prospective trainees, decide through testing programs of the U. S. employment offices whether they would fare better through vocational or on-the-job training. Job training programs would be worked out with employers who are willing, and who have jobs or expect to have jobs available.

Demands of automation. The federal job experts anticipate such training could come at various stages—either training for an entirely new industry or skill, or taking an employee with some skills or limited apprenticeship training and improving on them. However, because of the limited training period (52 weeks maximum) and the limited education of many of the prospective trainees, it is questionable whether many of them could be trained for the higher skills that are demanded by automation. These are apt to be exacting and, in some cases, to require specialized abilities.

As Goldberg himself noted to Congress, the "want ads" are now calling for people trained in such fields as transistorized circuitry, inertial guidance, gyrodynamics, and microminiaturization. In such areas, the Administration proposes that management and labor take the initiative in training already skilled workers for the greater job demands. Its intention is to supplement the training of unskilled or lesser skilled for some useful place in the modern job market. **End**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Belgian miners, their jobs gone for good, learn glassmaking and other trades.

Retraining works—for the fortunate few

Program at abandoned coal pits in Belgium shows that new jobs can be learned, but only by the relatively young and capable. For most men, it offered no solution

"Retraining works—if, and, and but." This is apparently the lesson of Belgium's experience in retraining unemployed miners.

It's a lesson of particular interest to Americans worried by the growing problem of structural unemployment. More and more, retraining is cited as the solution for workers laid off because technological change has wiped out jobs (page 67). But most of this talk is heavy on theory, light on practice. The Belgian experience may be limited in its significance—miners, after all, are a highly special kind of unemployed worker—but it probably represents one of the most systematic, large-scale retraining attempts available for study.

The Belgians found that:

- Retraining works if the worker is young enough and capable enough to learn new skills.
- If he gets training in fields where specific jobs exist.
- Retraining is not a practical solution for the great majority of unemployed workers.

These are much the same findings as those of the tripartite Armour & Co. automation committee that undertook a retraining program at a closed plant in Oklahoma City (BW—Apr.15'61,p135).

Mines shut down. Setting for the Belgian experiment was the 100-square-mile Borinage district, whose coal mines formerly employed more than 25,000 workers. Between Mons and the French frontier, a man earned his living either by working in the mines or selling to miners and mine companies. There was nothing else.

The mines have not been competitive for years. In 1956 the High Authority of the European Coal-Steel Community cracked down, ordering most of them to be gradually shut down. Mining employment is under 11,000 today, with 2,000 more jobs slated to go by 1965.

Although bad, the re-employment problem was not so enormous as the figures suggest. Many laid-off miners were eligible for pensions. Others, Italian nationals, returned home when their jobs disappeared.

Severence pay. Under a financial arrangement with the Belgian government (which paid less than half the cost), the High Authority paid the work force of each closed colliery full wages for periods of four to 12 months.

Workers who found permanent jobs in other districts received rehousing allowances—$120 for a bachelor and $400 for a married man, with an additional $40 for each child. Some miners, including many Italians, took advantage of this help to move on to the modern mines in the Campine district.

Workers who applied and were accepted for retraining continued to draw their full wages during the training courses.

There was a $200 limit on all monthly wage payments.

The Mons labor office was in charge of both re-employment and retraining.

New plants, new jobs. In 1959 the government began to tackle seriously the task of developing new industry in the Borinage. Plans were drafted—and are now being carried through—for a great new transportation complex, involving improvements and extensions of rail, highway and canal facilities. Work was begun on an industrial park at Ghlin, which will house a glass works, a corrugated container factory, a brewery, and a cellulose factory.

The retraining program dovetailed into this development. It offered training in skills required in construction work or by the industries planning to locate at Ghlin.

At Maisieres, three schools trained masons, carpenters, and plumbers—12 to 15 of each at a time—with the courses averaging six months. Recently a month's refrigeration training was added to the plumbing course at the request of a local refrigerator firm.

At Jemappes, the buildings of an abandoned coal mine became a school for diemakers for the glass works. The course lasts a year and the school has a capacity of 10 students.

The very newest plan calls for students to be transported daily to the glass company's old works at

Momignes (an hour and a half's ride) for schooling as machinists and checkers for the new works. Three-month courses will train a total of 55 workers.

In a one-shot effort, the Mons labor office met a request for 25 blow-pipe cutters by arranging to train 25 men, most of them ex-miners.

Officials estimate the cost of the retraining program at $26,500—out of a total bill of $2-million spent by the High Authority and the Belgian government to ease the aftereffects of the Borinage mine closures.

Hundred retrained. To date, some 100 ex-miners have been retrained for other jobs.

Even allowing for the fact that much of the retraining program is just getting under way, this tiny percentage of the 7,000 who lost mine jobs since 1958—1.3%—indicates some of the serious limitations of retraining.

The 100 men who were trained pretty well exhaust the number of those interested in and capable of training, Mons authorities say. There were few cases of miners eligible for training but unable to enter classes because of overcrowding (in these cases they entered the next class). Most were unequal to retraining in new skills. Even a few of those who had been judged eligible couldn't make the grade.

The major obstacle was found to be the age barrier. After 35, it's a rare underground worker who can be trained for anything else, the Belgian officials concluded.

If the worker had had a mine job above ground, his chances of benefiting from retraining were improved. The best prospects were often miners who also had had previous experience in some other trade, even a trade unconnected with the new skill they wanted to acquire. A reasonably good educational background was another advantage.

Many, of course, did not even apply for retraining. They became unskilled laborers in the Borinage's proliferating construction projects. The future security of most Borinage ex-miners depends on the continued availability of unskilled jobs, not on retraining for skilled labor, the Mons office feels.

This does not mean, officials emphasize, that the retraining program is a failure. On the contrary, they regard it as a success. It does mean, however, that retraining is not a large-scale solution, at least among miners. Retraining helps only an "elite" group. But for this group, the Belgians say, it is very worthwhile indeed. **End**

In labor

Labor board acts to forestall jurisdictional disputes at Martin Co.

The National Labor Relations Board has moved to forestall further disputes involving craft and industrial unions and the missile-producing Martin Co.

An NLRB panel ruled last week that the craft-oriented International Brotherhood of Electrical Workers violated the Taft-Hartley Law by refusing to install cables prefabricated by a contractor for the Martin Co.'s Pershing missile. The cables had been made by the Gable Electric Service Co., whose workers belong to the United Auto Workers.

An IBEW local representing Martin workers declined to perform certain phases of Pershing cable installation at a missile construction site in Orlando, Fla., last July. It claimed jurisdiction in the fabrication of the cables, a job that had been done earlier by UAW members employed by Gable. The Martin Co. protested to the NLRB.

An NLRB trial examiner called the local's action an illegal secondary boycott against Gable, a secondary employer. The panel upheld him.

Noting that the issue was likely to arise again, the NLRB ordered the local to stop refusing to work on the cables.

Michigan governor vetoes relief for UC fund because of broad backfire against labor

Despite a new governor and a statewide effort to change an "anti-business" image, Michigan finds itself trapped in another financial dilemma created by a business-labor feud of 12 years' standing.

Siding with labor, Democratic Gov. John B. Swainson last week vetoed a bill to inject millions of dollars of increased tax revenue into the state's ailing unemployment compensation fund. It wasn't the bill's taxing provisions that brought the veto. **Swainson disapproved of a provision tacked on by Republicans to cancel out the State Supreme Court's famed Ford-Canton decision of 1958.**

In this case, the court had granted unemployment compensation benefits to Ford workers laid off in Michigan because of a strike against Ford in Canton, Ohio. Industry leaders claimed the decision forces a company to finance a strike against itself. They supported the legislature's provision designed to reverse it.

Swainson said the measure went too far. It would not only deny benefits to a worker who was idled by a strike of his union within the same company, but would also deny them to a worker "represented by any labor organization that is directly or indirectly affiliated with or acting in concert or sympathy with" the striking union. Labor spokesmen charged that this meant anyone in the AFL-CIO. Swainson agreed.

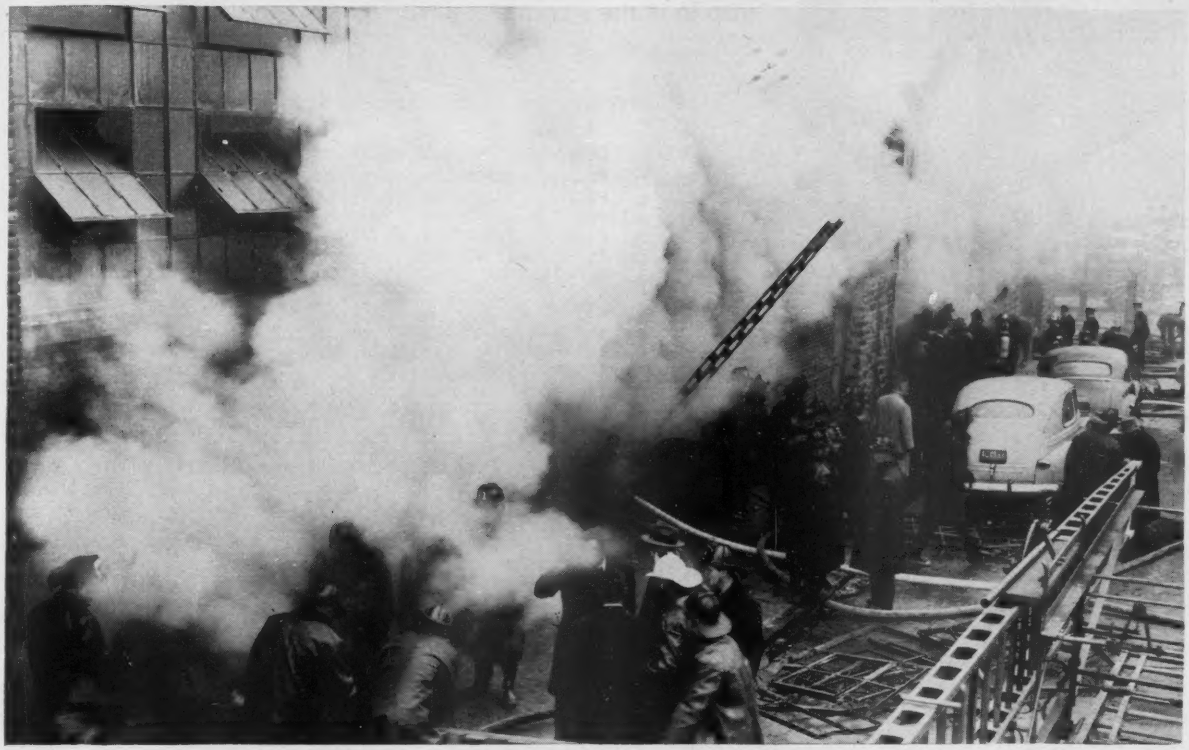
Union accepts cut in incentive pay

Packinghouse workers at Patrick Cudahy, Inc., in Cudahy, Wis., have agreed to a 10% cut off the top of incentive pay rates. Cudahy has had losses of about $2-million since March, 1960, and has reduced its 2,000-man work force by almost half.

Under the agreement between the company and Local 40 of the United Packinghouse Workers, **a worker producing 120% of his standard output will receive 110% of base pay.** At the same time, he can produce more than the previous unofficial limit, 125% of standard output.

The move is intended to increase production with a minimal loss of earnings, company spokesmen said.

Up in smoke . . . $100,000!



Over $100,000 went up in smoke as fire consumed this New York furniture factory. Far more shocking than the monetary loss was the death of seven persons.

Proof that Grinnell Sprinklers can protect you against disastrous fires

A single Grinnell Sprinkler quickly extinguished a fire that broke out in the shipping department at Angelus Furniture Manufacturing Co., Los Angeles, California.

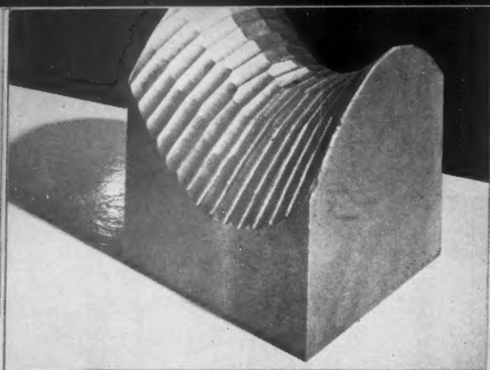
Grinnell Sprinklers can be installed in your plant or office with minimum disruption to your routine. The complete system is normally fabricated in Grinnell shops, then shipped to location and installed by expert crews.

You can rely on Grinnell Sprinklers to stop fires quickly. Their fast and effective operation is the result of years of research, design improvement and careful manufacture. They save insurance dollars, too! Get the facts today.

Write Grinnell Company, Providence 1, Rhode Island. Contracting offices in principal cities.

GRINNELL

AUTOMATIC SPRINKLER FIRE PROTECTION SINCE 1878

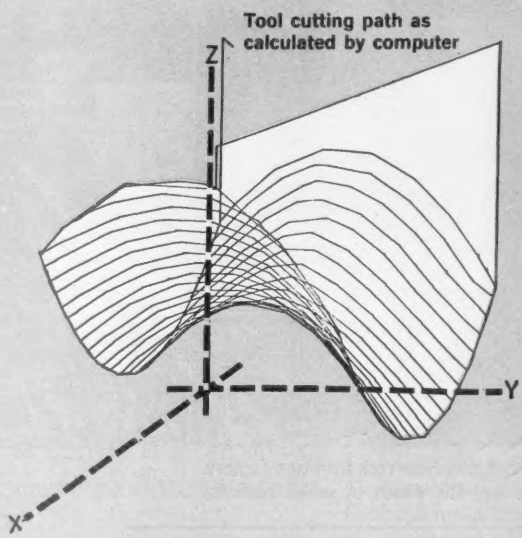


Here's how the Autoprompt computer program and a numerical machine tool team up to make a complex part from simple directions

This short program is all the computer needs . . .

```
          REMARK/    SADDLE BLOCK
KLEAR  =  PLANE, +Z/ NORMAL (0,0,1) DIST (6)
EAST   =  PLANE, +X/ NORMAL (1,0,0) DIST (6)
WEST   =  PLANE, —X/ NORMAL (—1,0,0) DIST (—1)
SOUTH  =  PLANE, —Y/ NORMAL (0,—1,0) DIST (—1)
NORTH  =  PLANE, +Y/ NORMAL (0,1,0) DIST ( 6)
SADDLE =  QUADRIC, OUTSIDE/ EQUATION (X2 —6X —Y2 +6Y —4Z +12)

          CLEAR/ KLEAR
          INTOL/.04, OUTOL/.04,
          FEEDRATE/20, TOOL RADIUS/0.5
          ON COOLANT
          FROM/ (0,1,6)
          REGION/ SADDLE
          EXTERNAL AT/   (1,1,3), +Y  DIRECTION, RIGHT
          START BOUNDARY/ SADDLE (WEST)
          CONTINUE BOUNDARY/ SADDLE (NORTH, EAST, SOUTH)
          ZIGZAG
          OFF COOLANT, STOP, FINISH
```



The first line is merely an identifying title. The next five lines are definitions and locations of the four planes that form the sides of the block. Line seven defines "saddle" as the outside surface of a curve formed by the quadric equation $X^2 - 6X - Y^2 + 6Y - 4Z + 12$. The next group of instructions begins the directions for cutting the part: dimensional tolerances (here set very broadly for a rough cut), feed rate, tool size, and auxiliary instructions (such as "turn on coolant"). The next six lines of instructions give the general order of milling steps. Last line shuts the machine off. The computer takes this short list and expands it into a detailed tape that will run the machine tool to produce the part.

PRODUCTION

Tool with skill of a machinist

Latest step in automation provides computer with a program that automatically calculates three-dimensional instructions for cutting a part on a tape-controlled machine tool

Sidewalk superintendents in New York City will have a rare opportunity during the next month. Through a showroom window in World Headquarters of International Business Machines Corp. at Madison Avenue and 57th Street, they will be able to watch a computer and a huge milling machine work together in some of industry's most advanced automation.

The drawing above shows a typical job performed in this demonstration by the $3-million IBM 7090 computer and the $175,000 tape-controlled milling machine made by Pratt & Whitney Co., Inc., a subsidiary of Fairbanks Whitney Corp.

A description of the part, in a vocabulary of English words and signs and figures, is fed into the computer. In minutes (a really complex job can be worked out in an hour) the computer produces a tape for the machine tool's control unit. This directs the motions of the tool so it carves a three-dimensional part. All the operator has to do is change cutting tools and mount the blanks on the mill's ways.

Machinist's savvy. The star of the Madison Avenue show is neither the big machine tool nor the even larger general-purpose computer. It's a reel of magnetic tape that contains an immensely complex computer program

Aluminum saddle takes shape under the guidance of control tape generated by IBM's new automatic programing system.

Autoprompt's author, Samuel M. Matsa (right), checks blueprint with Charles Robinson of United Aircraft Corp.

First part programed with help of Autoprompt is helicopter gearbox cover, here being hewn out of solid aluminum.

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1961

Designers may be freed from many time honored limitations on shapes . . .

Story on page 80

called Autoprompt, newly developed by IBM programers.

Autoprompt quite literally provides the logic and memory system of the big computer with the savvy of a skilled and experienced machinist. With this education at its command, the computer needs to know only the specifications of the part to be cut, the characteristics of the cutting tool, and the dimensional tolerances. It quickly calculates the hundreds of thousands or even millions of successive tool positions needed to cut complicated three-dimensional curved shapes.

The program even contains diagnostic routines that detect errors in the instructions. If a dimension is given inaccurately, for example, the computer will recognize the error and type out a general description of the mistake. In a bulky program, this double-check can save much human and computer time.

Autoprompt itself is a massive program, with around 32,000 words of instruction that must be stored in a computer's memory. So only the larger IBM computers can make use of it—the 704, 709, and 7090 systems. It comes on a reel of tape provided at no extra charge.

Important advance. Autoprompt is the first generally available program (IBM claims no exclusive rights to it) to calculate instructions for cutting three-dimensional parts on tape-controlled machines.

All but a handful of the 210 or so continuous-path numerical millers are now used in the aircraft industry, but Autoprompt and other three-dimensional computing techniques will undoubtedly make this type of tool more attractive to other industries, by cutting the cost of preparing the taped instructions.

Numerical tools will become more practical for a broader range of jobs, such as die sinking, and in very short production runs, machining parts out of solid blocks may prove more economical than using castings or forgings. Because numerical tools can cut complicated curves almost as easily as straight lines, designers may be freed from many time-honored limitations on shapes, once they know what numerical tools can do.

Big time saving. United Aircraft Corp., which cooperated in IBM's development of Autoprompt, used

the new system this month to provide a helicopter gearbox cover with four weeks' lead time, compared with five months when the part was produced by manual techniques, and with one-fifth as much machining time.

Much greater savings in lead time will be possible as programers get more familiar with Autoprompt, says Charles Robinson, supervisor of numerical control at United's research lab in East Hartford, Conn. Most of the three weeks of programing to prepare the tapes was spent in rechecking and correcting the program, he says. The job required about three hours of computer time, but a similar job ought to take only an hour or so in the future, he adds.

This time saving is the fruit of the 25 man-years that went into the new machine tool language. Samuel M. Matsa, a senior analyst in IBM's mathematics and applications department and director of the Autoprompt project, estimates it took that long to develop the master program to accept a basic vocabulary of 210 English words, plus mathematical notations, and to convert these instructions to a tool position code.

Industry effort. IBM's creation is related to industrywide efforts to simplify the making of tapes to run automatic tools. More than 10 years ago, the Servomechanisms Laboratory of Massachusetts Institute of Technology developed for the Air Materiel Command the first numerical machine tool capable of cutting curves.

The machine quickly proved it could make parts that manually controlled machines could never turn out, but writing instructions for the controls was a problem in itself. A curved cutting path to close tolerance involves calculating a tool position for each thousandth of an inch.

Obviously, this was a job for computers. It wasn't long before MIT shifted its main effort from design of servomechanisms to dreaming up short cuts for programing them. General Electric Co., Bendix Corp., Cincinnati Milling Machine Co., and a few others began to make the control systems.

Once these machines were programed, they saved as much as 90% of lead time and 80% of machining costs for airframe and aircraft engine makers, according to one case history after another. But the programing remained onerous and expensive, eating up an excessive part of the savings on the machines.

Automatic programing. To solve this problem, the Air Force and its Air Materiel Command underwrote a joint project of MIT and the Aerospace Industries Assn. to develop automatic programing of tools—APT, for short. MIT's Servomechanisms Lab worked up the general outline of a system and turned its completion over to AIA member companies.

Progress was slow for a while. This type of work requires the efforts of the best computer programers, and they are in desperately short supply. But in the spring of 1959, an APT program for two-dimensional parts was in the hands of AIA companies for field trials; it had 10,000 instructions and could use a vocabulary of 107 words. The first usable system, called APT II, Phase I, was completed in September, 1959, and has now been updated.

Production APT, Phase II, issued last February, is a production technique with excellent two-dimensional capability but limited three-dimensional use; programers can use 250 descriptive words, and it is adaptable to nearly every machine tool control system.

With three-dimensional parts, a separate set of instructions must be written for each movement of the tool along a path. When tool paths may be only a hundredth of an inch apart on a precision job, this adds up to a lot of paperwork, even with automatic programing. That's where Autoprompt may be a revolutionary step forward; from a definition of the surface, it calculates all the tool paths automatically.

Autoprompt will be a part of the full three-dimensional APT that is scheduled for release in December, according to Edgar A. Bates of General Dynamics Corp., APT project coordinator for AIA.

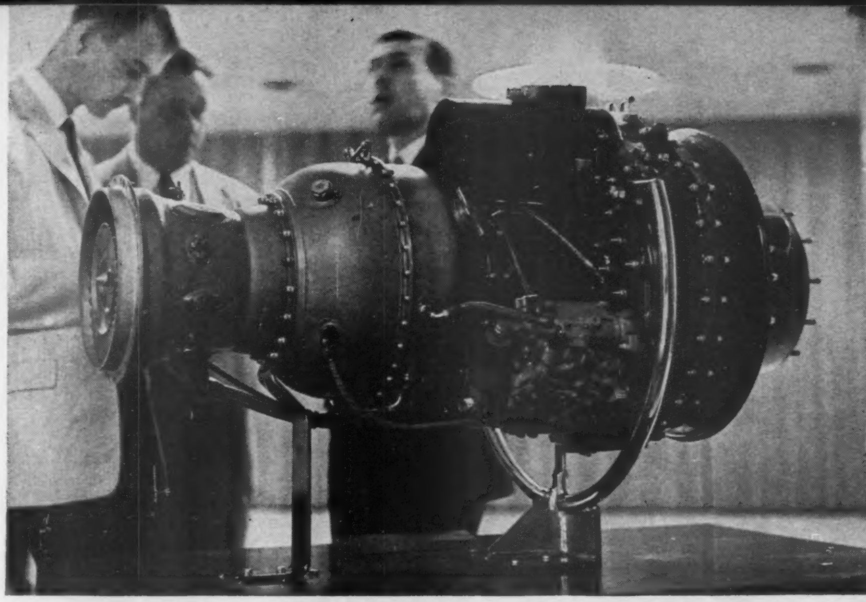
For all industries. Autoprompt and the APT III that's coming up should expand the use of numerical tools in all industries. Eventually, they should change many of the practices and cost relationships in machine shops.

Already it's possible to go almost directly from part specifications to machine tool instructions, bypassing a lot of blueprinting. Computer programers and machine tool makers foresee a time when computers can go to work at the original design stage. It is conceivable, they say, that a computer will be able to take general specifications and critical dimensions for a part and virtually design the piece to suit general objectives such as least cost or highest strength-to-weight ratio. It could then turn out a tape to make the part.

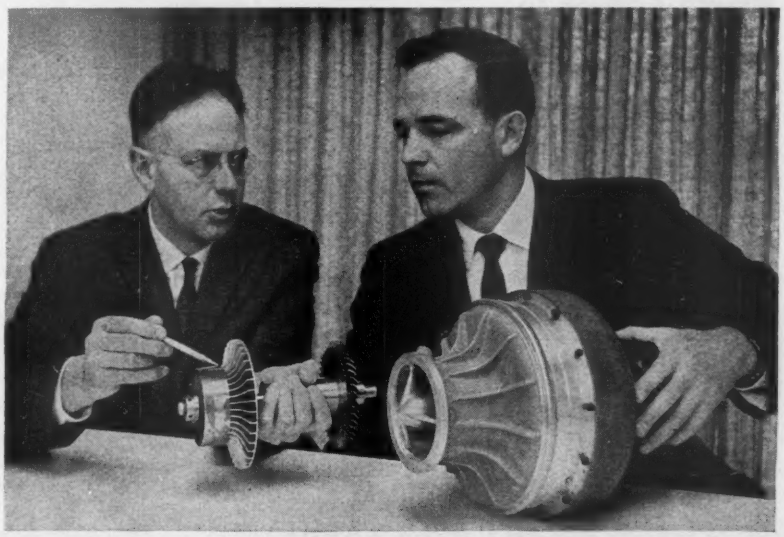
But this is in the future, the experts agree. Right now they're concentrating on making the three-dimensional systems work. **End**

Better bets in turbines

Small gas turbines with more pep, lower cost, promise new lift for a lagging field



Continental Motors Corp.'s new entry in small gas turbine field, a 500-hp. engine for powering light aircraft, has first showing in Toledo at gathering of top administrative personnel of Continental subsidiary that will make the engine.



Williams Research Corp.'s 23-lb. turbojet engine gets a going-over by Pres. Sam B. Williams (right) and John Jones, vice-president of engineering. It could be used in multiples for light aircraft or adapted for automotive-type applications.

In a speech a few months ago, the chief engineer of Garrett Corp.'s AiResearch Mfg. Div. of Arizona, the country's leading producer of non-aircraft gas turbine engines, predicted that a "second generation" of small gas turbines was just around the corner. These dream engines, he said, would drink only 0.6 to 0.7 lb. of fuel per horsepower hour, develop 1 hp. per 0.7 lb. of engine weight, and stand up 5,000 hours between major overhauls.

The two small turbines in the pictures—both newly unveiled, though not yet in production—probably come the closest yet to being that "second generation."

Perhaps more than any turbines before them, they represent the vast changes overtaking the gas turbine industry, and more particularly, the field of small gas turbines—roughly, anything under 1,000-hp.

One engine, a tiny, 23-lb. turbojet developed by Williams Research Corp. (lower picture), will build up 85 lb. of thrust or the equivalent of 85 hp. This engine is for light aircraft or—when redesigned with a shaft and reduction gearing—for non-aircraft applications, such as autos, utility vehicles, boats, and the like.

The other engine, a 210-lb., 500-hp. unit called the T-72 (top picture), was introduced last week by Continental Motors Corp. Its principal job will be powering light aircraft.

Pound for pound, the two engines are more compact, more efficient, and less expensive than the general run of turbines in their power range. As such, they could well pump new life into the small gas turbine business—for years, a field that has been long on promise but rather short on performance (BW—Jan.17'59,p38).

Mixed blessing. On the surface, the gas turbine looks like an ideal power plant. The engine is small, and its simple design should mean less maintenance. Unlike the internal combustion engine with its pistons, valves, camshaft, and so on, the gas turbine has basically only one moving part: a turbine shaft. Air is first sucked into a compressor, then mixed with fuel—either gasoline, diesel fuel, or natural gas. When ignited, this mixture produces hot gases that whirl through a series of turbine fans and generate power.

In one respect, the turbine has no peer: It produces more power per pound of engine weight than anything but a pure rocket. That's what helped make the larger aircraft turbine, the giant "jet," an instant success.

Despite these virtues, the small turbine isn't exactly sewing up the market. The cost is too high. A 200-hp. turbine may run to $20,000. The problem is that a turbine, rotating as rapidly as it does, requires extreme precision and special, high-temperature metals. Blades on each turbine must also be individually machined, as a rule.

So far, only about 13,000 small gas turbines have been built, with AiResearch turning out about 9,000 of them. Over a year's time, small turbine producers count themselves lucky to move 2,000 engines. This somewhat dour picture doesn't worry

Continental and Williams, though.

For corporate jets. Continental's T-72 will be produced by the company's Continental Aviation & Engineering Corp. subsidiary, beginning in early 1963. It can be mounted either as a turbo-shaft engine for helicopters or, in combination with a propeller, as a turboprop for five- to eight-passenger, twin-engine aircraft.

The engine is a bare 20 in. in diameter, 45 in. long, and needs only 0.67 lb. of fuel per horsepower hour. Probably the most startling thing about it will be the price, estimated now at $15,000 to $17,000. That compares with $50,000 to $60,000 for other turbines in the same general power class.

Continental shaved some of its costs—and weight—through wide use of aluminum and magnesium. The engine also has fewer parts than larger and heavier turbines. For instance, the compressor has only two stages or two compressor fans. No one else, Continental believes, produces an engine of comparable efficiency with fewer than nine compressor stages.

Williams' entry. Williams, an engineering outfit that designs and builds prototypes to order, has its eye on applications that could eventually lead to high-volume production. Though the 23-lb. engine could be used in multiples for light aircraft, Williams is thinking, too, of automotive-type applications, such as de luxe small cars. Right now, a slightly heavier, shafted version of the 23-lb turbojet is going, experimently, into a Mutt (Ford's quarter-ton Jeep-type vehicle). Normally, Williams leaves production to its clients, but it plans to produce the 23-lb. turbojet itself.

Williams is also busy on several other turbines. One is a heavy-duty, 500-shaft-horsepower engine for Waukesha Motor Co. that will run 20,000 hours between major overhauls—at least, that's what Williams is gunning for.

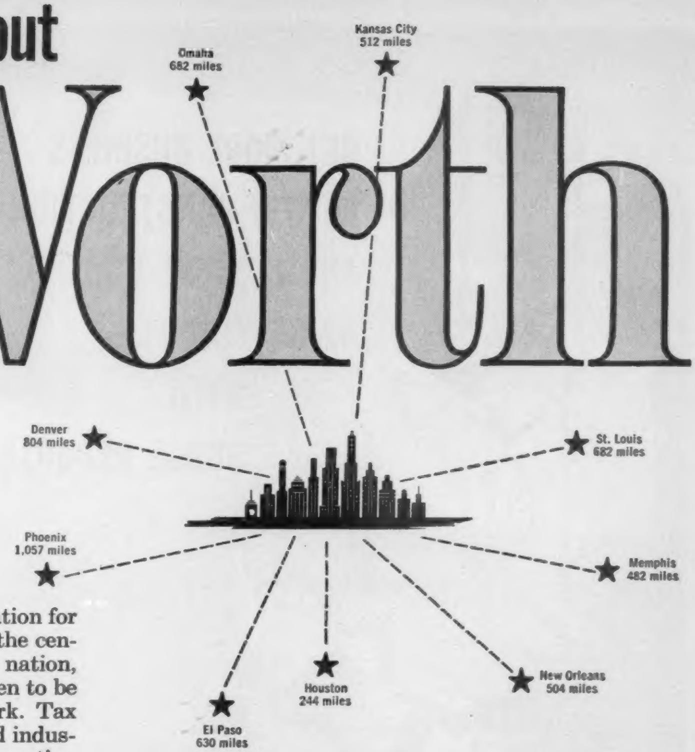
This will be the first engine in this power range actually designed for ground use—others have been adapted from aircraft engines, making them even costlier. A General Electric T-58 aircraft turbine, running 1,000 hp., can be converted to ground use for about $60 per hp. Williams and Waukesha hope to get theirs down to $20 per hp., to be competitive with diesels.

Cost-cutting tricks. Williams has several tricks for cutting costs and stepping up turbine efficiency. In its 23-lb. engine, it uses a cast blade ring or turbine fan, formed from cobalt-base alloys. This replaces

information about

Ft. Worth

for industrial site seekers



Fort Worth is a highly desirable and logical location for companies wishing to serve the Southwest. In the center of one of the fastest growing regions in the nation, Fort Worth has an abundant labor supply proven to be easily trained for semi-skilled and skilled work. Tax laws and the local government's attitude toward industry are both favorable. If the following information about Ft. Worth interests you, get in touch with us for more specific details. We'll work with you in strictest confidence.

LABOR: Labor force of 212,500. Sound balance between supply and demand for workers provides an excellent pool of unemployed and reserve workers who could be recruited almost at once. Diversification of industry in Fort Worth has resulted in a large supply of highly skilled, versatile personnel.

POWER: *Electric*—1,140,780 KW daily generating capacity of Texas Electric Service Company. Three steam electric generating stations serve the area.

Gas—A gross underground storage capacity of 50,000,000 Mcf. Current estimated reserve of three trillion cubic feet—a 20-year supply. Gas is supplied from 13,000 wells in 300 gas fields in Texas and Oklahoma.

Fuel Oil—Unlimited commercial supply.

TRANSPORTATION: The Rock Island and eight other railroads; 34 common motor carriers; six airlines.

RAW MATERIALS: Ample forest resources, rapid growth cycle of commercial timber, vigorous conservation program. Texas is the nation's leading producer of cotton, cattle, wool, mohair, and grain sorghums. Limestone, clays, coal, sand, and gravel are in abundance in Tarrant County.

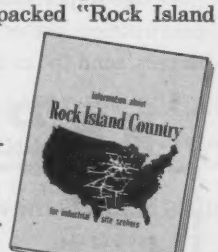
HOUSING: 111,000 new dwelling units since 1940. An average of 1,297 houses for sale and 559 units for rent per week. Average selling price of desirable homes is $12,198, with per-square-foot costs ranging from $10 to $15.

THE COMMUNITY: 80 elementary schools, 26 junior and senior high schools, 2 technical schools. Two colleges, a university, and a theological seminary. Extensive adult education programs. 72 parks, 8 general and 2 children's hospitals; 1 doctor per 750 persons. Texas has no state or local sales tax, and no individual or corporate income tax. The level of combined state and local taxes is about 10% below the average for all states.

COMMERCIAL SERVICES: About 1,000 manufacturing industries operate in Fort Worth, of which 90% employ fewer than 50 workers each. These smaller industries provide both diversity and stability to the economy of the city. Major activities are the manufacture of transportation equipment, food, machinery, and air conditioning. Among other industries are metal fabrication, printing, chemicals, fertilizers, plastics, electronics, and packaging materials. Agriculture and petroleum are also major industries. Over 1,000 firms are engaged in wholesale trade, and there are about 2,300 service firms in the city.

CLIMATE: Yearly normal temperature of 66 degrees; normal annual rainfall of 33.69 inches. The region is one of temperate climate, and occasional extremes of hot and cold are short-lived. Measurable snowfalls occur on an average cf only once a year.

INFORMATIVE BROCHURE describes 12 key markets in Rock Island Country. This fact-packed "Rock Island Country" booklet, as well as further details on industrial sites in Fort Worth, may be obtained by writing on your company letterhead to P. J. Schmidt, Manager, Industrial Development, Department 181, Rock Island Lines, La Salle Station, Chicago 5. The brochure and supplementary information will be mailed in a plain envelope marked "Confidential."



Rock Island

ROCK ISLAND LINES

The railroad of planned progress

...geared to the nation's future

Chicago 5

forged blades separately inserted i the ring.

For efficiency, Williams also de signed a compact, rotating heat ex changer—though this isn't installe on its 23-lb. engine. The exchange siphons off normally wasted exhaus gas heat to raise the temperatur of the incoming air.

One of the few other small-tur bine makers using both cast blad rings and rotating heat exchanger —though neither feature is a novelt by itself—is Chrysler Corp. This i not just by chance. Williams' Pre Sam B. Williams was a project en gineer on Chrysler's turbine progran before he formed his own compan six years ago. At Chrysler, he spear headed much of the research o Chrysler's present heat-exchanger.

Turbine-driven vehicles. Som Chrysler engineers believe the tur bine may find a home in passenge cars. George J. Huebner, Jr., execu tive engineer, backs the gamble o the theory that volume productio should cut tooling costs to one-hal or even one-sixth of what they woul be with an all-new reciprocatin engine.

Ford and General Motors, takin another direction with their turbine are aiming mainly at the heavy-dut truck field, both on- and off-the-road GM has sold 11 of its 225-hp., 650-lb gas turbine to experimental users.

Boeing Co. has been pioneerin various vehicle and heavy equipmen turbine installations since 1950. Tha was the year that Boeing—simulta neously with, but independently o Rover Co., Ltd., of England—put th first turbine in a highway transpor Rover still hasn't put a turbine powered passenger car on the mar ket, but Boeing has "Turbo-Chief fire trucks racing around both Seat tle and San Francisco.

Other markets. Turbines are als invading the marine market. Sola Aircraft Co., a subsidiary of Inter national Harvester Co., has a multi million-dollar Navy contract for de veloping a 600-hp. turbine. Pre Herbert Kunzel claims the new en gine will have "design objectives fa beyond any gas turbine now in exist ence."

Solar and AiResearch also repor expanding sale in the petroleum an natural gas industries—and, o course, in the biggest turbine marke of all, ground support equipment fo commercial jet aircraft.

"Right now, it's a very fast-movin field," Williams says, "but there still a lot of research needed to mak the turbine a profitable, volum item."

The two new small turbines brin it a little closer to that goal. **End**

Professional movers agree...

Thermodyne diesels are the money makers

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for over 8 straight years
NO. 1
by far in sales of diesel trucks

Among professional movers there's little doubt: Thermodyne® diesel-powered Macks earn the highest profits.

Each operator has his own reasons for relying on Macks. Because long-distance movers in general run up higher yearly mileages than other truck operators, many of them find the inherent fuel economy of the Thermodyne diesel alone is more than sufficient reason for Mack's continued popularity.

Others also praise strongly its power output. With tight schedules, these movers look to the Thermodyne-powered Mack to keep them rolling at top legal speeds despite air resistance to big frontal van areas.

And still others say the Mack Thermodyne is a top profit earner because it is so dependable, reducing downtime to a bare minimum. To them, money saved is money earned.

Whatever you are looking for in a diesel truck or tractor, you'll find it in famed Mack Thermodyne vehicles. Join owner-operators and professional moving firms like Aero Mayflower . . . Greyhound Van Lines, Inc. . . . National Van Lines . . . North American Van Lines . . . and U. S. Van Lines in the swing to Thermodyne diesel power. And when you move to diesel remember that there are twice as many diesel-powered Macks on the road today as the next nearest make . . . more than the next two makes combined. Mack Trucks, Inc., Plainfield, New Jersey.

IT'S PART OF THE LANGUAGE...BUILT LIKE A Mack

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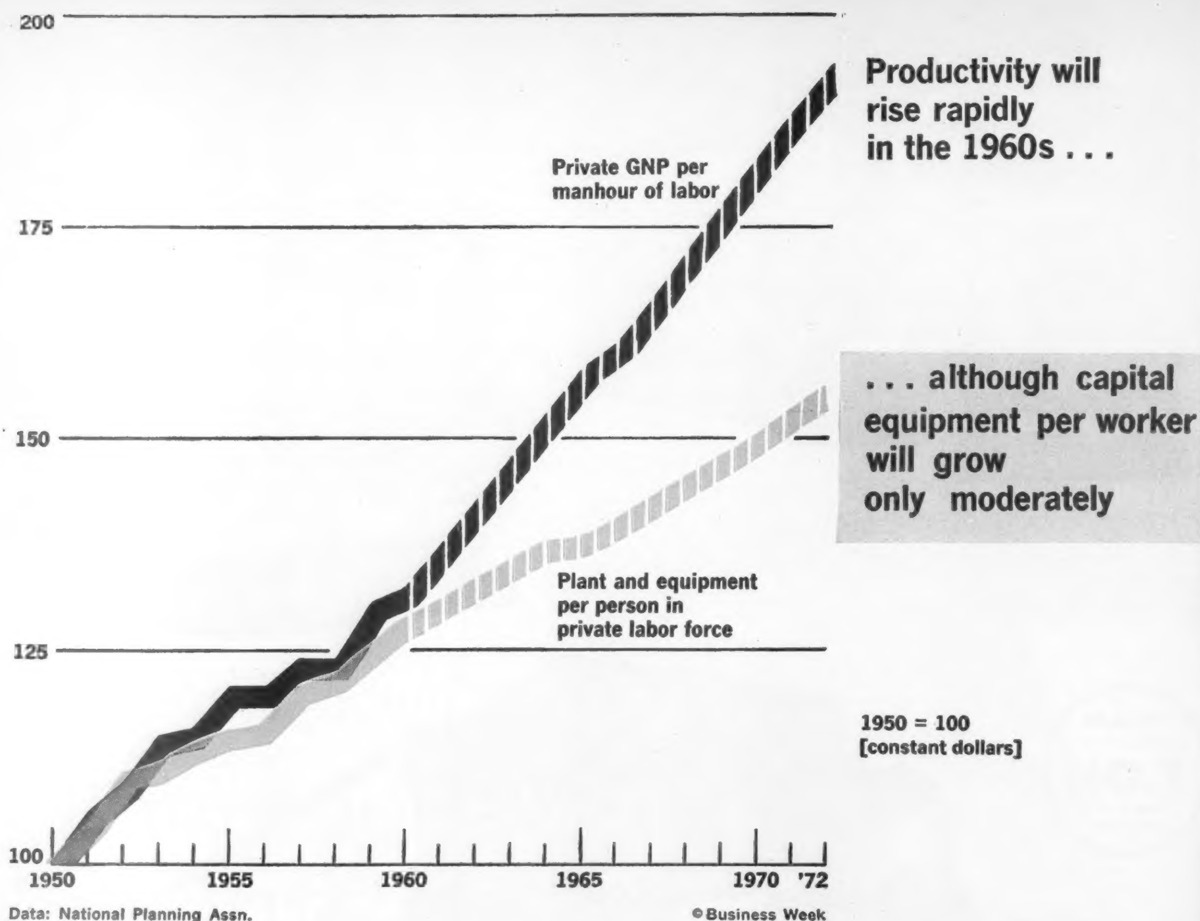


ECONOMICS

The coming upsurge in growth

National Planning Assn. predicts that within the next decade each U. S. worker will be able to turn out more product with less plant and equipment

From the end of World War II to the mid-1950s, the nation's productivity—output per manhour—shot up at a 3% rate, about one-third higher than its historical performance. In the mid-1950s, however, that rate of gain slipped back to one roughly equal to the familiar 2% a year.

Now, going into the 1960s (chart, above), productivity is set to take off in another swoosh, well above the 3% per year rate, according to a new study by the National Planning Assn., a nonpartisan research group that specializes in making long-term economic projections for business, labor, and agriculture.

NPA's forecast. The stepup to a 3% rate of annual productivity gain will not result from a big boom in business spending on plant and equipment, NPA says. Indeed, NPA expects capital per worker to grow only moderately over the next decade. While the value of plant and equipment per worker is expected to increase by 22% through 1972, productivity will climb by 46%.

If the NPA forecast is near target, the U. S. gross national product in the 1960s should move into a period of rapid total growth not much below the much-disputed "magic" 5% growth rate. In recent years—since the mid-1950s—the U. S. economy has been growing by only 2.3% per year, or half the rate NPA foresees for the decade ahead.

"K/O" ratio. NPA believes that some major structural changes in the economy now make a growth rate of 4.6% to 4.7% during the next 10 years the best basis for "prudent business planning." With that rate of growth, the association projects a GNP in 1971 of $825-billion, measured in 1960 prices. (In the first quarter of 1961, GNP was about $500-billion.)

NPA's optimism, paradoxically, hinges on the relatively slow growth

in the stock of plant and equipment per worker. Looked at the other way around, this means a stepup in the efficiency of capital—that is, a decline in what economists call the "capital/output ratio." This "k/o" ratio is assuming major importance in debates over the U. S. economy and the kinds of economic policies the government should follow to stimulate the growth rate.

To economists, the capital/output ratio is the current stock of capital (plant and equipment) divided by the volume of output. As technology improves and capital equipment becomes more efficient, you would expect the amount of capital required to produce a given output (the k/o ratio) to decline.

Over the long run, this has in fact been happening. In 1915, it took $2.28 worth of capital equipment (figured in 1960 dollars) to produce $1 worth of GNP. By 1960, it required only $1.64 worth of capital equipment to get an output worth $1. Thus, the capital output ratio has declined by nearly 30% since the beginning of World War I.

Irregular pattern. That long-term decline in the capital output ratio has been anything but regular. The capital/output ratio obviously is not a pure measure of the efficiency of plant and equipment, but reflects also the swings in the business cycle, unusual pressures on the economy, and such factors. In other words, in a period of depression, you expect the capital/output ratio to rise—because, although output falls off (the bottom half of the ratio) the stock of capital stays very high, even if new investment collapses. Thus, in 1920, the capital/output ratio was at $2.10, but in 1930 it jumped up to $2.42, and in 1933 reached a peak of $3.28, from which it started to slide.

In 1940, the capital/output ratio declined to $2.06—the first time it got below its 1929 level. But the ratio didn't stop there. With heavy wartime demand for output, the ratio fell to $1.44 in 1944, a low that it has not touched since. With the end of the war, and the end to the need for working our capital stock super-hard, the capital/output ratio went up to $1.64 in 1947.

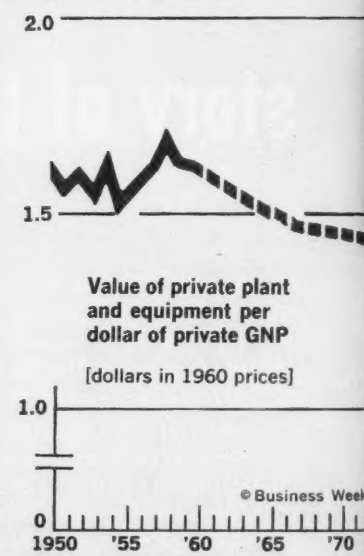
Postwar lag. Since then, the capital/output ratio has moved jerkily up and down. In 1960, the ratio was again at $1.64, its 1947 level. The reason for this relatively flat trend, according to Prof. John Kendrick—a productivity expert of George Washington University and the National Bureau of Economic Research—is that, despite the growing efficiency of new equipment, World

War II left us with an exceptionally low capital stock.

In part this was due to our failure to replace equipment at an adequate rate both during the war and the preceding depression years, and to the fact that we beat up our capital stock unusually fast during the wartime period of triple-shifting. The need to expand our capital stock was further increased by booming demand for goods—both here and abroad. Thus, the push for more capacity just about offset the growth in the efficiency of capital, and the capital/output ratio stayed fairly constant until 1960, oscillating up and down with the business cycle.

Faster growth. Now Gerhard Colm, chief economist of the NPA and one of the pioneers of the GNP system of national accounting, believes that this period of sideways movement of the capital/output ratio is ending—that a steady decline in the ratio will mark the next decade (chart, below).

Less capital per dollar of output



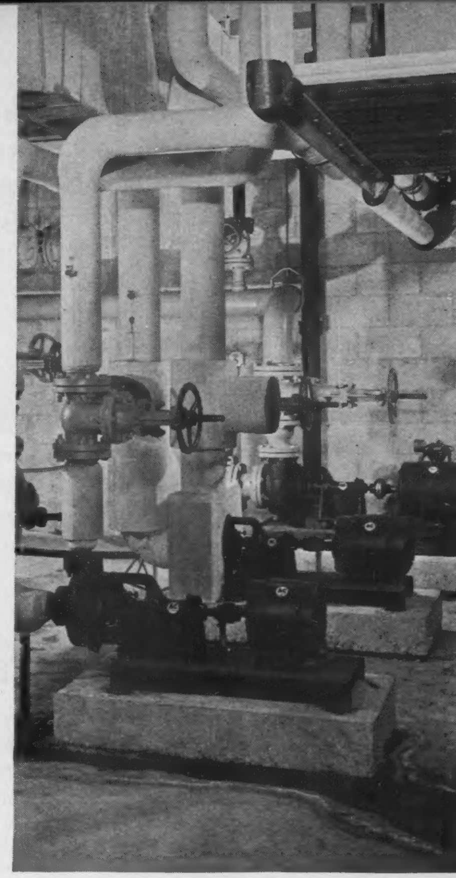
Data: National Planning Assn.

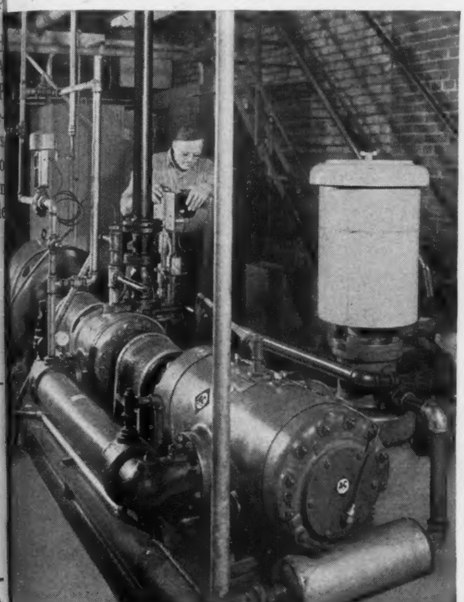
Colm predicts that the ratio will decline from its 1960 level of \$1.6 to \$1.44 in 1972—as the growing efficiency of new capital equipment is no longer offset by the necessity of rapidly increasing the nation's stock of capital. In effect, this means the U. S. can accelerate its rate of growth without increasing the proportion of national income going into plant and equipment investment.

Predictions. Kendrick agrees with Colm on this point. Kendrick, at NPA's annual forecasting conferenc

ideas and news

New era of quiet in cooling: Smooth-running Allis-Chalmers pumps and motors "speak" with a whisper . . . circulate chilled water silently for air conditioning hospitals, schools, shopping centers or office buildings. Quiet operation is a result of the extra attention to detail given in manufacturing and testing. One example is the sound analysis laboratory where exact sources of unwanted vibration can be pinpointed, new design concepts developed.





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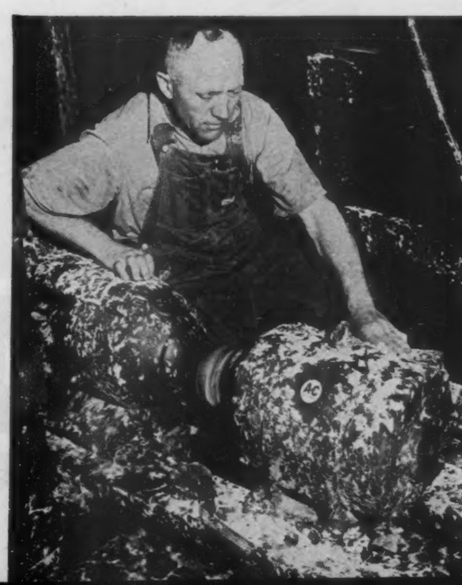

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ALLIS-CHALMERS

in Washington last week, predicted that the capital/output ratio will decline at an annual rate of 0.5% to 1.5% a year in the decade ahead. Kendrick asserts that this will happen even if you do not assume any increase in the rate at which new technology is introduced into the system or any stepup in the growing efficiency of each unit of equipment.

His reasoning is that the big growth in the population and the continuing heavy demands on government—together with the national goal of something approaching full employment—will imply a stepup of growth in real product. The stepup in output to meet this demand will not carry with it matching increases in the stock of capital.

For one reason, levels of national saving are very sticky over time—they have long hovered about 15%. And, Kendrick adds, the very fact that the labor force is growing faster relative to the stock of capital will create greater incentives to economize on capital. The probability that interest rates will stay high, says Kendrick, will also induce companies to economize on capital.

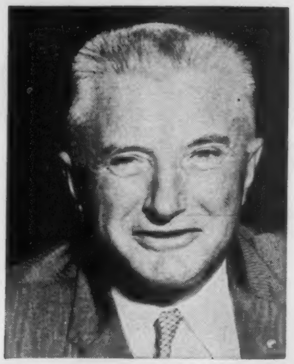
Technology aids. Colm—and a number of other economists attending NPA's Washington meetings—did, however, put greater stress than Kendrick on the contribution of new technology (as a result of advances in electronics, chemistry, metallurgy, power, and others) in pushing down the capital/output ratio.

In a sense, these men argued, new technology substitutes not only for labor but also for capital equipment. And the tremendous growth of spending for industrial research and development is accelerating the rate at which new technology substitutes for both labor and capital.

Efforts to step up national economic growth might then concentrate more on feeding funds to R&D rather than to more investment in plant and equipment, where the returns to investment may be lower. In the current American Economic Review, Prof. Henry H. Villard, of the City College of New York, suggests that an additional 1% of national income devoted to R&D might permit a 5% rate of growth in national output—with virtually no change in the proportion of total national resources going to capital investment.

NPA's expectation of a 4.6% rate is based primarily but not wholly on its assumptions about the stepup in the productivity of labor and capital. It also emphasizes the coming rapid expansion in the labor force, as the war and postwar babies enter the job market in the 1960s. **End**

Robert B. Anderson



Frederick H. Mueller

Wilber M. Brucker

Arthur Summerfield

James C. Hagerty

James P. Mitchell

Gerald D. Morgan

Robert A. Bicks

GOVERNMENT

Eisenhower men find new niches

Former Administration leaders are scattered all over the map. Some are returning to old jobs, a few are staying on in Washington, many are entering new fields

Former Pres. Eisenhower and the men who helped him run the country for eight years are settling swiftly, anonymously, and often lucratively into private life. Some will miss the fame and glory, the excitement of the big decisions. For others, the change is a welcome relief from the high-compression chamber of official Washington.

A number have gone back to their old law practices or businesses. Others have transformed their government experience into a special niche in private business. Former Civil Defense Director Leo A. **Hoegh,** for instance, is executive vice-president of Wonder Building Corp. of America—building air raid shelters. Norman P. **Mason,** chief of the Housing & Home Finance Agency and a former lumber dealer, is financing and building low-cost housing in Latin America. He is chairman of the board of American International Housing Corp.

Eisenhower's hard-hitting young trustbuster, Robert A. **Bicks,** is now an antitrust specialist for a New York law firm with many big corporate clients.

Top rank. Leading the ranks of those heaving a sigh of relief is Eisenhower himself. After 20 years of commanding the U.S. forces in Europe, leading NATO, then shouldering the heaviest burden of all, he is taking his retirement with obvious pleasure. While spending most of his time so far on the golf course in Palm Springs and at his Gettysburg farm, he still intends to speak out on public issues, write his memoirs, and take his turn at big political functions.

Vice-Pres. Richard Nixon, comfortably based financially as consultant to a Los Angeles law firm, is busy speechmaking as titular head of the party.

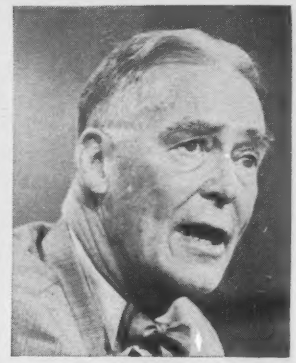
Beating the bushes. For the top brass of the Administration, the job of job-hunting has been mostly one of picking among attractive offers. But for the lesser-known officials, settling into something they will like has sometimes been a problem.

The Republican National Committee has gone to bat to try to find suitable jobs for these people. Out-

William P. Rogers

Ezra Taft Benson

Fred A. Seaton



Christian A. Herter

going Chmn. Thruston B. Morton was struck with the idea that a lot of good people and good jobs were not getting together properly and decided to do something about it.

He drew up a list of 1,000 "good Republican companies" whose officers had been big contributors or active in the campaign and sent them all a letter in April.

"There are many highly qualified men coming out of government," he wrote, "who, from their knowledge and experience in their particular jobs, as well as their access to the Hill and the departments, are in a position to make an excellent contribution to private industry."

The letter drew 500 responses. A big oil company wanted to hire a top public relations man. Others sought lawyers with top government experience, some for lobbying, some just for straight corporate practice. Only a few have been placed by this route so far, but several others are in process.

Key list. Meanwhile, the National Republican Committee is planning to keep the former officials active in the party. A key list of men who can be called upon to give a speech or organize a dinner has been drawn up. To keep them informed of good issues to hit before local civic groups, a biweekly memo called "The Answer Sheet" goes out to the key list.

The National Committee figures that these men with public reputations, and now in responsible nongovernment jobs, will form a solid base for political campaigning in 1962 and 1964.

New spots. A number of Eisenhower appointees are proving once again that "Potomac Fever" is a highly contagious disease. They do not lack for offers if they want to stay in Washington, particularly as public relations men, lobbyists, or Washington attorneys for big corporations.

Bryce N. **Harlow,** Eisenhower's legislative chief, will continue legislative work—only now for Procter & Gamble Co. Chief White House Counsel Gerald D. **Morgan** and his assistant, David W. **Kendall,** are practicing law in the capital, as is Atty. Gen. William P. **Rogers.**

Robert K. **Gray,** secretary to the Eisenhower Cabinet and always one of Washington's most eligible bachelors, has become Washington director of Hill & Knowlton, Inc., a big public relations firm. He was also the first official to publish the inside story of the Administration in a fast-seller called Sixteen Acres Under Glass.

Lt. Gen. Elwood R. **Quesada,** Federal Aviation Administrator, has become a Washington local personality with a vengeance. He signed on as president of the newly franchised Washington Senators of the American (baseball) League.

Maj. Gen. Howard **Snyder,** who tended the President through his heart attack and two bouts of ileitis, is doing medical research and writing at Walter Reed Army Hospital in Washington.

There are others who like the Washington scene so well they switched flags willingly and went to work for the new Administration. Treasury Secy. Douglas **Dillon** was Eisenhower's Under Secretary of State; he took his special assistant, John M. **Leddy,** to Treasury with him as Assistant Secretary for International Affairs. Federal Reserve Chmn. William McC. **Martin** stayed on as guardian of the dollar.

A few, like Presidential Assistant Jack Z. **Anderson,** have gone to work for congressmen or Congressional committees. One-time aide to former Sen. Robert A. Taft, Anderson is now on the staff of the House Veterans Affairs Committee.

Most, however, have set out to disprove the adage that "they won't go back to Pocatello." Interior Secy. Fred A. **Seaton** has escaped to the relative calm of the family newspaper business in Hastings, Neb. Battle-scarred Agriculture Secy. Ezra Taft **Benson** has returned to the solace of Salt Lake City, where he is a member of the Mormon Church's Council of Twelve.

Three who came from university circles have gone back to the ivory tower—Space Administrator Dr. T. Keith **Glennan** to his old post as president at Case Institute of Technology in Cleveland; Health, Education & Welfare Secy. Arthur S. **Flemming** to the presidency of University of Oregon. He had been president of Ohio Wesleyan University. Eisenhower's speech writer, Kevin **McCann,** is once again president of Defiance College in Ohio.

Former economics professor Raymond J. **Saulnier,** who was chairman of the Council of Economic Advisers, has been in Latin America on a study project for the National Bureau of Economic Research and will return to Barnard College (Columbia University) July 1.

The top Pentagon brass for the most part have fled the scene. Defense Secy. Thomas **S. Gates, Jr.,** a financier "by trade," is a director and chairman of the executive committee of Morgan Guaranty Trust Co. Army Secy. Wilber M. **Brucker** and Navy Secy. William B. **Franke** resumed their respective law practices in Detroit and Chicago. Air Force Secy. Dudley C. **Sharp** is back with Mission Mfg. Co., a family-owned producer of oil-field equipment in Houston.

The men who steered the nation through one international crisis after another are still working for peace—but in more peaceful surroundings. State Secy. Christian A. **Herter** remains in his old Georgetown home in Washington and is a consultant to Johns Hopkins University School for Advanced International Studies, which he helped found several years ago. James J. **Wadsworth,** United

What is happening to the men who helped Eisenhower run the country . . .

Story on page 107

Nations' delegate and ambassador to the U. N. after Henry Cabot Lodge resigned to run for Vice-President, is president of the Peace Research Foundation in Washington.

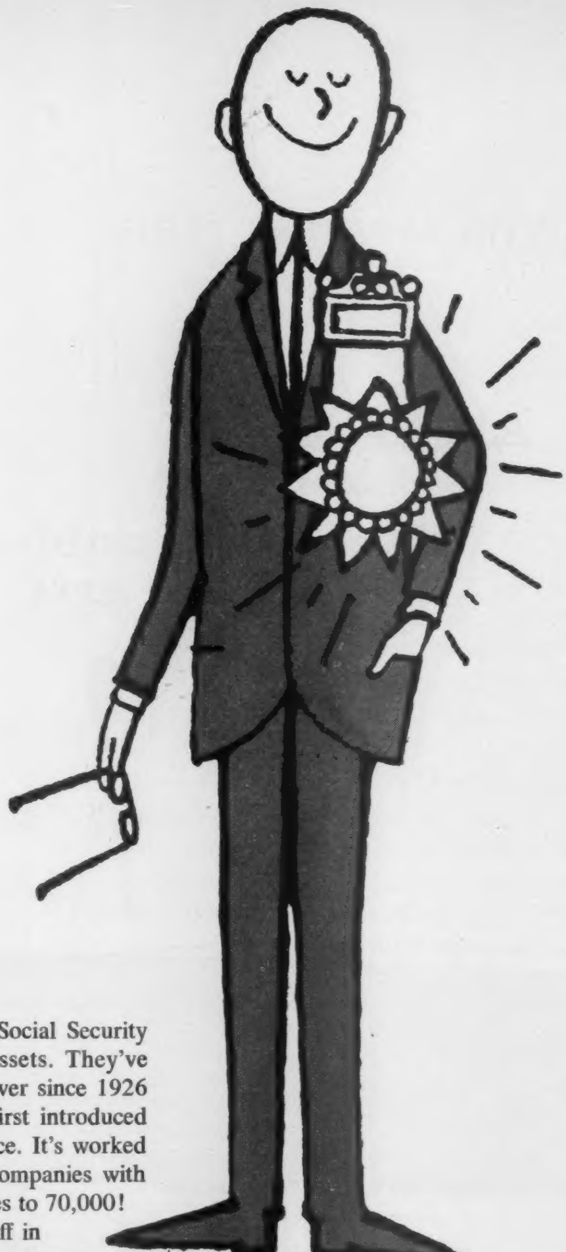
Two have transferred their government experience into business on the West Coast. Clarence G. **Morse,** chairman of the Federal Maritime Board, is now president of Pacific Far East Line, Inc., in San Francisco. Budget Director Maurice H. **Stans,** a professional economist, is president of Western Bancorporation in Los Angeles, a big bank holding company.

Philip **McCallum,** head of the Small Business Administration, is still making loans—this time for Irving Trust Co. at No. 1 Wall St. The president of the Export-Import Bank, Samuel C. **Waugh,** is selling advice on international investment as a consultant to banks and insurance companies. Treasury Secy. Robert B. **Anderson** is involved in underwriting big investment projects, too, as a limited partner in Carl M. Loeb, Rhoades & Co., a New York brokerage investment firm. He has also joined the boards of directors of Goodyear Tire & Rubber Co. and Dresser Industries, Inc., makers of oil equipment.

Eisenhower's influential Press Secretary, James C. **Hagerty,** went back to his old trade of journalism—but on a somewhat improved scale. A former reporter for the New York Times, he is now vice-president of American Broadcasting Co., with the job of beefing up the News & Public Affairs Dept.

Two Cabinet members, Postmaster General Arthur **Summerfield** and Commerce Secy. Frederick H. **Mueller,** devoted full time promoting the June 1 GOP fund-raising dinner in Washington. Summerfield will continue fund-raising activities for the party, keep a hand in his automobile dealership in Flint, Mich., and other business enterprises. Mueller is a business consultant in Washington, D. C.

But one who labored in the Washington political kitchens and apparently doesn't mind the heat is Labor Secy. James P. **Mitchell.** He is running full steam these days as Republican candidate for governor of New Jersey. **End**



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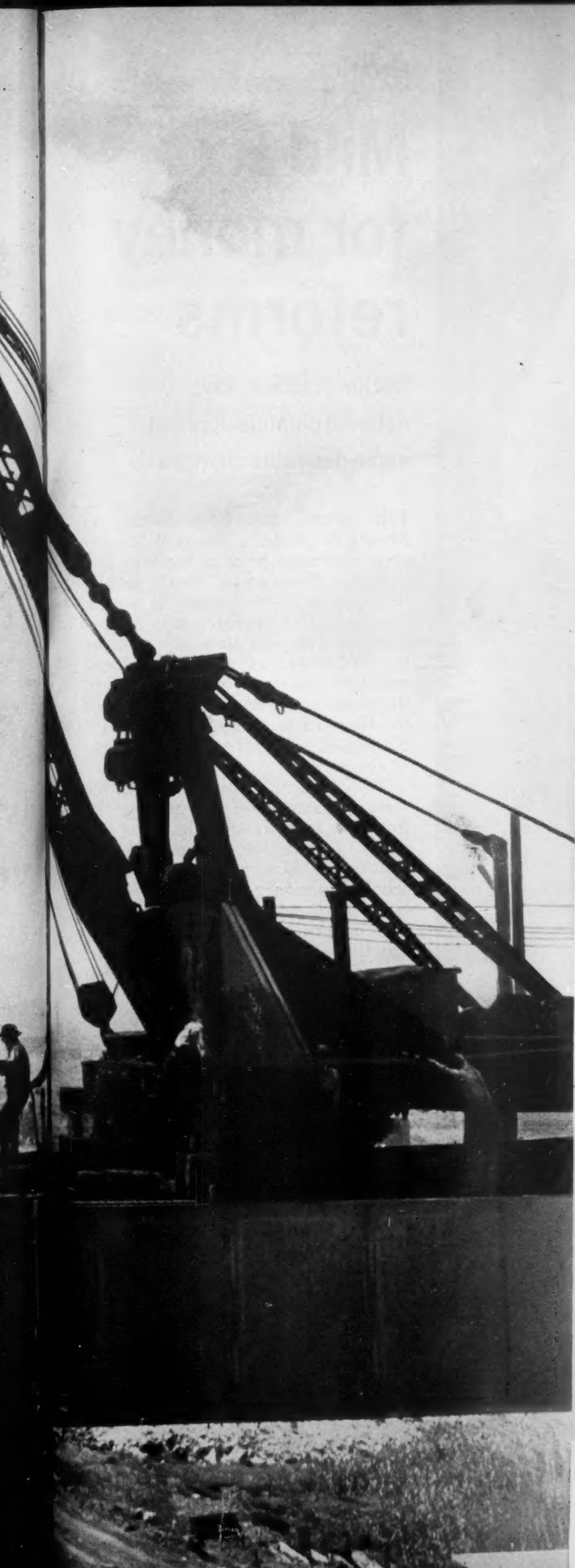

Winding up a three-year chore, Chmn. Frazar B. Wilde (left) and staff director Bertrand Fox check final details of report by Commission on Money & Credit.

FINANCE

Mild Rx for money reforms

Nothing radical, says national commission, but some desirable changes

This week, the Commission on Money & Credit, a group of 20 citizens who have been at work in private for three years, made public the results of its labors. It was a sweet moment for three men in particular (cover and pictures)—Frazar B. Wilde of Connecticut General Life Insurance Co., chairman of the commission, and Bertrand Fox of the Harvard Business School and Eli Shapiro of MIT, who were in charge of research.

Wilde, an old hand at committee work, concentrated on getting the group to agree on a wide variety of issues. Fox, a soft-spoken administrator, and Shapiro, a quick-witted scholar, proved an effective team, both in directing the extensive research work and in putting the study together. They are hopeful that the report, and the research papers that will follow, will bring a number of reforms.

Overdue overview. There's no doubt that the report and its recommendations will get a lot of attention. It is the first major examination of the nation's monetary system since 1911, when the National Monetary Commission headed by Sen. Nelson Aldrich reported on a study that paved the way for the establishment of the Federal Reserve System.

The new commission has consciously sought parallels with the Aldrich group—it took a similar name, decided on the same three-year period for study, and named David Rockefeller, president of New York's Chase Manhattan Bank and a grandson of Aldrich, as one of its members.

Though big changes have taken place since the Aldrich study, it is questionable that the new report will have as great an impact. For one thing, Aldrich's commission was set up by Congress; in contrast, the

new commission is a private body with no governmental sanction. More important, the original study was begun after the money panic of 1907, when it was recognized that major changes were urgent. The new commission, despite "widespread" concern about the workings of the nation's financial system, takes the view that no "wholesale overhaul of our financial structure" is needed.

Recommendations. This does not mean that the commission is satisfied with the status quo. It recommends a great many "small changes" that, if put into effect, would substantially alter the nation's financial structure. Among its main proposals:

- Give the President increased responsibility for coordinating national economic policy, including discretionary power to order a temporary tax cut on the first bracket rate.
- Reduce membership of the Federal Reserve Board from seven to five, and give it full control over the three major weapons of monetary policy—open market operations, discount rate policy, reserve requirements.
- Abolish the present debt limit and eliminate the interest rate ceiling on sales of long-term government obligations. It also suggests that contracyclical public works expenditures be planned on a five-year basis, so that they can be put quickly into effect if conditions warrant.
- Abolish the interest rate ceilings on government guaranteed and insured mortgage credit, and provide for greater coordination of government credit programs, under the leadership of the Treasury.
- Strengthen the private financial system by relaxing some restrictions and tightening others. The commission would give commercial banks, savings banks, and savings and loan associations more latitude both in their investment policies and in their geographical operating areas. But it would bring pension fund investment under government regulation. In addition, the commission recommends that all commercial banks join the Federal Reserve System.
- Eliminate the present 25% gold requirement on Federal Reserve notes and liabilities so there will be no doubt that the entire U.S. gold stock is available to meet international settlements. The U.S. should also build new defenses against exchange crises.

I. Money and economics

These proposals make clear that the commission covered a lot of territory. The reason, as the study points out, is that monetary policy does not operate in a vacuum. It is part of the nation's over-all economic policy, which is involved with three major objectives: an "adequate" rate of economic growth, "high" levels of production and employment, and "reasonable" stability of prices.

There is, for example, an interrelationship between tax policy and monetary policy, and the commission conscientiously examines just how they work and what can be done to make them effective.

Middle of road. In taking this approach, the commission reviewed many proposals designed to strengthen the nation's economic position. It made no attempt, though, to come up with any new ideas of its own, partly because it was not constituted as a group of experts and partly because it had a predilection for evolution rather than revolution.

In fact, in weighing possible choices, it avoided extremes, plumping invariably for a middle-of-the-road approach. And in some areas, it could not reach any conclusion.

For example, the commission reported itself "almost evenly divided" over the issue of consumer credit controls. It winds up by merely urging "an investigation of better forms of such controls, which can be administered more effectively if they should be needed." Similarly, it reviews various proposals for strengthening the international currency system, including the Bernstein and Triffin plans (BW—Apr.22'61,p45), but does not say just what program it favors.

The result is a comprehensive and circumspect guide that is likely to be regarded as a mountain of moderation. Even when the commission comes out in favor of a temporary tax cut through "formula flexibility"—providing automatic changes in personal taxes whenever prescribed economic indicators change by specified amounts—it takes pains to prove that it is not counseling a radical step.

Private backing. Given the conception—and the composition—of the commission, its middle-of-the-road attitude was inevitable. Its sponsor, the Committee for Economic Development, decided to establish an independent group after Congress, jealous of its traditional responsibility over money matters, had refused to grant Pres. Eisenhower's request for such an investigation.

With grants of $1.3-million from the Ford Foundation (and $35,000 from Merrill Foundation), CED sought to insure the national charac-

ter of the study by appointing a 10-man committee of economists and educators to help choose the commission members.

This group, mostly men with national reputations, represented a cross-section of interests—banking, agriculture, labor, commerce—so that the commission, in the words of one observer, amounted to "a political ticket."

Broad representation. Thus, labor was represented by Stanley H. Ruttenberg, director of research for AFL-CIO, and Emil Rieve, former president of the Textile Workers of America. Charles B. Shuman, president of the conservative American Farm Bureau Federation, spoke for agriculture, and Fred Lazarus, Jr., chairman of Federated Department Stores, Inc., for retail trade.

The bankers included Rockefeller, Chmn. Jesse W. Tapp of California's Bank of America, Pres. Gaylord A. Freeman, Jr., of Chicago's First National Bank, and Earl B. Schwulst, head of New York's Bowery Savings Bank.

Despite this mixed complexion, the commission managed to agree on a wide variety of issues, although there are a substantial number of dissents on specific proposals by individual members. For example, H. Christian Sonne, head of the National Planning Assn. and vice-chairman of the commission, found the report "inadequate" and he plans to "break new ground" with a separate statement. Says one staff member: "There were times when it looked as if we'd end up with 10 different studies; it's almost a miracle that they got together on one."

II. Controls on credit

In tackling monetary policy, the study endorses the use of general and indirect controls over credit. But it thinks that changes are in order, both in structure of the Fed and in the weapons at its disposal.

Any tampering with structure of the Fed usually raises the cry that the independence of the money managers is being undermined. But the commission makes the point that independence can be tantamount to isolation. It argues that a measure of coordination with the executive branch might give the money managers "increased rather than diminished influence."

It does not suggest any new organization, such as a national economic council, to bring about coordination. But it suggests that the Fed chairman and vice-chairman be designated by the President to serve coterminous four-year terms, which gives the executive a choice. And it calls for reducing the entire board to five members and eliminating occupational qualifications, so that the Fed board would be a tightly knit group of central bankers.

Central policy. At the same time, the commission wants to centralize the forging of credit policy, putting full control over the Fed's weapons—open market operations, discount rate policy, reserve requirements—in the hands of the board. This means junking the 12-man Open Market Committee (seven board members and five of the 12 regional Fed bank presidents) and taking away from directors of the Fed banks the right to suggest discount changes.

In addition, the commission thinks that discount rate changes should be uniform, because "credit markets have become essentially national in character, and the possibility of utilizing differential regional discount rate policies is negligible."

Against 'bills only'. The commission feels that the flexible nature of monetary policy, particularly its power to alter the money supply through open market operations, gives it a valuable and delicate instrument for stabilizing the economy. But, in a slap at the technique favored by the Fed during most of the 1950s, it comes out against "bills only"—the policy of trading mainly in 91-day Treasury bills. It feels that open market operations can be used to influence the structure as well as the level of interest rates—a view the Fed has already adopted (BW—Jun.10'61,p28).

In taking up specific credit controls, the commission notes that some borrowers are sensitive to general controls. When the Fed tightens, this has a special impact on the mortgage market and on state and local government expenditures.

Despite the efforts of its research staff, the commission was less certain about the effect on small businesses or consumers. It shied away from coming to any conclusions, merely suggesting further study of specific controls over consumers and business spending.

Banks only. While the commission seeks to bolster the position of the money managers, it emphatically rules out any Fed control of nonbank financial institutions. It takes issue with the claim that nonbank use of "money substitutes" weakens the Fed's control of the money supply, and it sticks to the orthodox position that the power to control bank reserves is sufficient.

However, it wants to see all commercial banks become members of

the Fed, on the ground that the existence of some 7,000 non-member institutions "permits some escape from the influence of monetary policy."

III. Fostering competition

The commission's decision against subjecting private nonbank institutions to the Fed's control appears largely motivated by its desire to maintain competition in the market place. Indeed, most of its recommendations on private financial institutions are aimed at spurring competition.

For example, the study favors standby, rather than continuous, regulation of interest rates on commercial bank saving deposits and would apply a similar regulation to savings and loan associations and savings banks. This would put commercial banks, which now have a maximum ceiling of 3%, on a competitive footing with thrift institutions.

The commission also favors relaxation of the investment policies governing private financial institutions. It would permit savings banks and savings and loan associations greater flexibility in their long-term investments and give commercial banks a similar latitude in investing their savings deposits. As the commission sees it, this would serve to promote the flow of funds into areas where they are most needed.

Security and growth. Many present restrictions were established after financial trouble, but the study expresses the view that financial panics have resulted from general economic distress rather than from mismanagement. So, in general, it favors increasing the mobility of funds in order to stimulate economic growth. The one exception is pension funds, which it feels should be regulated by an "appropriate" body.

To increase the flow of funds, the study also calls for liberalizing geographical restrictions. For one thing, it recommends that banks and thrift institutions be allowed to establish branches within geographical "trading areas" instead of having to abide by artificial barriers. For another, it would ease state laws restricting interstate lending on such things as sale-and-lease-backs and mortgages.

The commission recommends "equitable" tax treatment of competing financial institutions, without spelling out just what it means. But the proposal will not be lost on commercial banks, which have complained that both savings and loan

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associations and savings banks receive favored tax treatment (BW—May7'60,p137).

IV. Arsenal of stabilizers

From the commission's standpoint, the task of stabilizing the economy depends on finding the right mix of measures—monetary, tax, fiscal. The study charges that the mix has often been faulty, with the result that monetary policy has been either too restrictive or too easy.

There is no ideal combination of policy measures, says the study, but it insists better use of fiscal policy and debt management would make monetary policy more effective.

The commission does not see the need for any major changes in debt management policy. On the contrary, it regards debt management as a relatively passive instrument, taking the orthodox position that the structure of the debt, which is largely concentrated in short-term maturities, threatens to be an unsettling factor. So it recommends that the debt be lengthened by sales of longer-term obligations as soon as the need for a more restrictive policy becomes apparent.

More active policy. But it does call for a much more active fiscal policy. In past recessions, contracyclical government spending has been utilized as a stabilizer. But the study says that it has been put into effect too slowly and its major impact occurs when the economy is already in the recovery stage.

It urges that public works programs be planned in advance and that the emphasis should be on projects with a high ratio of spending in their early stages. Moreover, it wants planning to insure that such projects can be halted or slowed down with the onset of recovery.

Tax changes. In addition, the commission favors a temporary tax cut as a stabilization measure. It thinks it unwise to make any changes in the tax structure for short-run stabilization purposes; instead, it would simply vary the first bracket rate of the personal income tax. This would be done through "formula flexibility," which involves a change in the rate when prescribed economic indicators change by specified amounts.

The commission favors a shift only in the first bracket. Thus, if the indicators—which the commission does not list—drop by two points, it might mean a one-point cut in the first bracket, the 20% rate on the first $2,000 of income. As the commission sees it, this would have a valuable short-run impact on consumer spending. **End**

International outlook BW

June 17, 1961

Berlin crisis seems certain by yearend

East-West jockeying over Berlin has begun again in earnest.

It now seems certain that before the end of the year Moscow will once again challenge Western occupation and access rights in West Berlin. At the least, Premier Khrushchev can be expected to take preliminary steps toward signing a separate peace treaty with Communist East Germany.

Washington will leave the door open to a new round of Big Four negotiations—but only if Khrushchev will agree to negotiate about the German problem as a whole, not just about Berlin. U. S. officials believe that the Soviet leader wants negotiations before taking any action.

Both sides are taking a tough line as the bargaining process begins. Khrushchev insists that the Allied occupation must end, that the West must negotiate with East Germany about new rights in Berlin. And he warns that any attempt to maintain Western rights by force will be met with force.

The U. S., for its part, takes the position that it will use force if necessary to resist any interference with supply routes to Berlin. To make this position more convincing, Western "contingency plans" will be passed on quietly to Moscow. Beyond that, Kennedy is considering a reinforcement of U. S. troops in Germany and even a boost in the draft.

Two schools in Washington

U. S. officials divide into pessimists and optimists as to just how bad the brewing Berlin crisis will be.

The pessimists fear that, despite Kennedy's firm talk at Vienna, Khrushchev still believes that U. S. indecision in Cuba and Laos indicates that Washington won't risk war over Berlin.

The optimists are convinced that Khrushchev doesn't want a showdown over Berlin that might involve fighting in Central Europe, much less all-out war. According to this view, Khrushchev will settle in the end for a further postponement of his Berlin claims.

U. S. moving toward renewal of nuclear tests

Kennedy is planning steps to prepare world public opinion for the resumption of U. S. nuclear testing.

The collapse of hopes for a test-ban treaty at Geneva makes the argument for new tests almost unanswerable. To continue the moratorium would give the Soviets what they have always wanted—a ban without inspection. This would be read as another sign of U. S. weakness. Moreover, there's a growing fear in Washington that the Soviets have been testing secretly.

Pressure on the President to end our self-imposed ban on tests is mounting fast. It is coming from nuclear scientists, who are chafing to get on with scientific research, and from the military. Political pressure is rising, too. Former Pres. Eisenhower this week recommended fixing a date for resuming tests.

The President, though, will be cautious about giving the green light for tests. His advisers warn that he will be charged in many countries with accelerating the arms race. Moscow is expected to push in the United Nations for a resolution condemning any new U. S. tests.

In this propaganda battle, Washington will make every effort to publicize the concessions it has made to get a test-ban treaty. **Meanwhile, the U.S. will continue talking at Geneva.**

Threat of more violence in Algeria

The Evian peace talks between the French and the Algerian nationalists (FLN) have gone into indefinite recess.

Meantime, continuation of the Algerian conflict, with all its cold war implications, is sure to plague the Atlantic alliance in the months ahead. With the talks hung up, raw violence between Europeans and Moslems may flare up into a Congo-type nightmare.

Political guarantees, Saharan oil

The peace talks, begun May 20, were called off unilaterally by the French. FLN officials insist they are willing to go on talking, which Paris admits is true. But Paris insists that FLN representatives have shown no flexibility.

Two major points are the stumbling blocks:

- **Guarantees for Europeans.** The French demand that Europeans in Algeria be granted dual citizenship, which would be spelled out in constitutional documents. FLN officials offer only promises of political rights on an individual basis. They argue that the French are trying to dictate the political framework of an Algerian republic.
- **Saharan sovereignty.** FLN officials want it clearly understood that oil-rich Sahara will be part of an Algerian republic. The French say this question has to be handled separately from current talks.

FLN turning to Moscow?

French officials, who broke off the peace talks on direct orders from Pres. de Gaulle, are hoping a "period of reflection" will soften up the tough FLN position. Observers close to the Nationalists, however, report the FLN leadership is furious.

Observers in Paris recall that when initial French-FLN talks failed in the summer of 1960, FLN leaders turned to the Communists for support.

Turning point in the Congo

A turning point appears to have been reached in the Congo crisis, with chances of a settlement looking better now than at any time since independence a year ago. **Officials at the U.N. and in Washington are hopeful.** More significantly, perhaps, so are Belgian business executives intimately involved in the Congo. Anything could happen, of course.

But compromise is definitely in the air. With Moise Tshombe under arrest by Pres. Kasavubu in Leopoldville, the rump Katanga government in Elizabethville is expected to send representatives to a new session of parliament.

Antoine Gizenga, the Moscow-backed successor to Patrice Lumumba, also has indicated willingness to take part in the meeting of parliament (if the U.N. will guarantee his safety outside Stanleyville). Gizenga has had troubles with local officials in Oriental Province. This has cost him some political leverage and another problem threatens: Pres. Nasser of Cairo, in his feud with Moscow, has soured on Soviet aid to Gizenga and is reported ready to interfere with it.

Meantime, the U.N. has been consolidating its position. Relations with the Congolese improved generally with the replacement of India's aristocratic Rajeshwar Dayal by Dr. Sture Linner of Sweden, who is popular with most Africans.

Japan lifts its targets

Taste of prosperity fires ambition to double national income in 10 years

The Prime Minister of Japan, Hayato Ikeda (right), is scheduled to arrive in Washington next week for talks with Pres. Kennedy. He'll have a number of things on his mind, including Japan's relations with Communist China, the question of Asian security, the nuclear test ban, and disarmament.

But foremost will be economic matters, including U. S.-Japanese trade. Like Britain, Japan is heavily dependent upon trade and thus is sensitive to the ebbs and flows in the international economic community. Ikeda is coming to the U. S. to fulfill one of his primary functions, economic diplomacy.

Japan today is prosperous as never before. The historically poor Japanese people have sampled the material benefits of a modern industrial economy, and are translating their desires for economic progress into demands upon their political leaders. The politicians must respond or see Japan shaken with political strife.

Economic plans. No Japanese politician is more aware of these demands than Ikeda, who campaigned for election and won on the prosperity issue last fall (BW—Nov.26'60, p114). The major promise made by Ikeda, who came up through the Finance and Trade Ministries, was to implement a plan to double the national income within 10 years.

The plan got off to a roaring start this year. Where it goes from here depends, in many respects, upon Japan's relations with the U. S. While in Washington, Ikeda will spell out Japan's hopes and fears.

The economic plan forecasts for 1970 a gross national product of $72-billion, considerably higher than Britain, France, or West Germany enjoy today. The average growth rate is set at 7.8% a year. Per capita

Prime Minister Hayato Ikeda outlines his plan for Japan—a gross national product of $72-billion for 1970. One of the big "ifs" hinges on expansion of trade with the U. S., a matter he will discuss with Pres. Kennedy in Washington next week.

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income will more than double to $579, based on a population of 102-million. Capital investment is slated to reach $10-billion a year, and there will be a further widening of the domestic market and a greater diversity of consumer goods.

Export issue. The success of the plan depends upon several elements, but none in so important as trade. If Japan is to solve its problems of unemployment and to continue to raise its standard of living, it must further industrialize. For a nation lacking in natural resources, to industrialize means to import. To pay for imports, Japan must export.

The questions surrounding the necessary expansion of Japanese exports are numerous and pressing. Among other things, Ikeda will discuss with Kennedy the Japanese fears of rising U. S. protectionism.

I. Prosperity—and TV

In Sir George B. Sansom's authoritative study, Japan: A Short Cultural History, the author notes that, in Japan, "frugality is not the enemy of satisfaction." Today, this is no longer true. Japan is getting the first touches of the affluent society.

Nowhere is this more evident than in the changes in personal consumption. Television sets are now in 62% of urban homes, radios in 87%. Refrigerators are a standard item in 17% of the city households. About half the city dwellers own electric washing machines and 14% of the farmers have them. Until four years ago, washers weren't made in Japan.

Both the leading automobile manufacturers, Toyota and Nissan, are expanding their facilities. Toyo Kogyo, a Hiroshima vehicle company that made only three-wheelers until last year, is now turning out 3,500 tiny coupes a month.

Capital expansion. Backing this up is an enormous capital expansion. Factories are springing up in rice paddies across the Kanto plain that surrounds Tokyo and on the reclaimed shores of Tokyo Bay. At least 16 oil refineries are on the drawing boards. The petrochemical industry, only five years old, will invest $334-million this year.

National economic statistics sum up the facts of the matter. GNP in 1960 reached $35-billion, slightly larger than Italy's, and two-and-a-half times the 1950 figure. Last year, the growth rate was 12%, highest in the world.

Postwar spurt. The Japanese have come a long way since the end of World War II. During the Occupation and after, they set about rebuilding their economy with relentless

Discount houses in Tokyo are flooded with appliances that sell from 20% to 30% below regular prices. This year, Japan will produce about 13-million radios.

Distributors for Toyo Kogyo, which makes the tiny Mazda Coupe, sell about 3,500 cars a month, a third of them to owner-drivers—a new phenomenon in Japan.

Office buildings are being put up by Mitsubishi Land Co. in downtown Tokyo. The construction boom absorbs about half of the thriving steel industry's products.

energy. By 1953, GNP was back to prewar levels, having climbed at an average rate of 11.5%. Per capita income, however, did not recover until 1956 because the population had grown so fast.

Japan was able not only to rebuild its economy but to lay the foundation for today's prosperity for a number of reasons, an important one being its abundant low-cost labor. Although wages rose during this recovery period, they didn't come close to keeping abreast of productivity.

This, in turn, led to extremely high rates of saving and investment. Moreover, the earnings plowed back into industry went not only to rebuild the war-shattered facilities but to modernize those still operating.

Trade gap. Japan was aided also by the worldwide renewal of trade, which expanded by 6.2% a year during the 50s. But Japan's trade, while growing in absolute quantity, did not return to its prewar level. Japan formerly held about 5.3% of the world's export market. By 1956, it could claim only 2.7%.

The gap between exports and the ever-increasing flow of imports needed to rebuild the nation's productive capacity was covered, in large part, by $2.4-billion of U.S. "off-shore purchases" of equipment and supplies during the Korean War. Further coverage of the trade deficit came from U.S. economic aid totaling about $2-billion, which ended in 1952. In 1953, however, imports jumped, and Japan ran a sizable balance-of-payments deficit—a crisis in an economy so dependent upon trade.

Holding the line. Between 1956 and 1960, Japan consolidated the economic gains made earlier and continued to grow, although at the more moderate rate of 8.5%. The high rate of savings has continued, reaching 30% of GNP last year, a record in a free economy. Investment reached an $8.3-billion rate in 1960. Wages and per capita income rose steadily, increasing individual purchasing power. Until the last few months, the government had inflation under control.

Japanese trade has also increased steadily, so that exports now take 3.5% of the world market. But imports, including those from the U.S., have continued to exceed exports. The deficit has been covered, in part, by invisible trade and by U.S. military purchases in Japan.

Once again, however, imports got out of hand, in 1957, and Japan ran a balance-of-payments deficit of $533-million. Since then, imports have been controlled carefully and foreign exchange reserves have been built up to $2-billion.

Five-year plan. After the postwar recovery, Japanese economists thought that growth would taper off to a 6.5% annual rate. The government, in 1957, drew up a five-year economic plan on this assumption. But the economy had more vitality than the economists realized. The growth rate in 1959 was a staggering 17% and the plan's goals were largely fulfilled. This led Japanese economists to work out a new program, known as the Doubling National Income Plan.

II. Economic forecast

Although the Japanese have labeled their economic program a plan, it resembles only in name those of the Communist bloc or those in mixed economies such as India's. It is essentially a forecast and a projection of current economic trends, a guide to government policy and private business, and not a mandatory plan for economic activity.

Running ahead. The largest segment of growth is to come in manufacturing, construction, and mining (9%); the lowest in agriculture, fishing, and forestry (2.8%). Services are slated to expand 8.2%, and transportation, communications, and public utilities are scheduled to rise 8.8%. In all this, the growth will be uneven, say Japanese economists, and probably will be greater during the first five years than in the second. These projections are based on constant 1958 prices.

Shift in products. In this process, Japan will continue the fundamental change in its industrial structure that began with the end of the recovery. It is gradually adding to its labor-intensive production, a capital-intensive industrial complex producing iron and steel, machinery, and petrochemicals.

Part of this is the natural development of a maturing economy. It's also a response to the changing demands of the export market and the pressure of competition. As developing countries such as India and Pakistan begin to produce goods such as textiles, they replace the Japanese in world markets because they can produce—as the Japanese once did—at lower cost with their abundant labor. So the Japanese must shift to products such as electronics and petrochemicals. Further, the expanding domestic market in Japan is absorbing more of the consumer goods that were formerly the products of growth in export.

Major worries. Perhaps the greatest fear in the coming decade is inflation. Many Japanese economists are already fretting over it. Within the last six months, a creeping rise in the cost of living has set in. Capital investment is galloping along; at the rate it's now going, it will reach the $10-billion target for 1970 within two or three years. This week, the government gently applied the brakes to investment by advising major banks to trim their loans by 25%.

There is also the fear of a balance-of-payments crisis such as those suffered in 1953 and 1957. When the Japanese economy is steaming along, imports of raw materials and equipment rise rapidly.

III. The big question

All questions of Japanese economics inevitably get back to this one point, trade. It contributes 24% to GNP, compared with 7% in the U.S. Among the major industrial economies, only in Britain and West Germany does trade contribute more.

During the next decade, Japan hopes to return its exports to the same share of the world market that it had prior to the war. The nation will continue to export to the industrialized economies, as it does now, but the pattern of trade will shift from growth in goods such as textiles to more sophisticated and heavier industrial products. In return, the Japanese assure the U.S. and other industrial nations that they will continue an import liberalization plan.

Discrimination. Japan is confronted with resistance to its expansion of trade. Some comes from the U.S. Elsewhere, 14 members of the General Agreement on Tariffs & Trade maintain restrictive measures on imports from Japan, under Article 35. Japan also fears that the trading blocs in Western Europe will discriminate against Japanese goods.

For the next decade, Japanese economists see little hope of enlarging their exports to the underdeveloped countries, which can't pay for them until they begin to develop.

Trade with Red China. Finally, there is the emotional and practical question of trade with Communist China, which Ikeda will also bring up with Kennedy. Many Japanese traders point to the China market that began to develop during the 1950s, reaching a peak in 1957, when Japan sold $68-million worth to the Communists and bought $75-million worth from them.

After that, Peking cut off trade for political reasons. This year, however, it is again tempting Japanese trading companies with pictures of a big China market. **End**

In business abroad

Business spokesman tells Ways & Means of benefits of U. S. investment overseas

Pres. Kennedy's tax message to Congress in April has stirred up a hornet's nest of opposition from U. S. companies with investments overseas. They are critical of his recommendation for taxing all profits earned by overseas subsidiaries of U. S. companies in "advanced" countries, whether remitted to the U. S. or not. Now only remitted profits of subsidiaries are taxable.

Last week, businessmen fired fresh broadsides at this proposal.

In testimony before the House Ways & Means Committee, they attacked the Administration's argument that direct U. S. investment overseas has an adverse effect on the American economy by withdrawing capital resources from the U. S. and by straining the balance of payments.

Typical of the testimony was that of Henry J. Heinz II, chairman of H. J. Heinz Co. of Pittsburgh, acting as spokesman for 19 U. S. manufacturers. These companies account for about 5% of total U. S. investment in manufacturing abroad.

Heinz told the committee that these 19 companies had contributed $646.5-million in net gain to the U. S. balance of payments last year. In contrast, the parent companies invested $61.3-million in new capital overseas. Added to this is $3.9-million worth of imports from the overseas subsidiaries into the U. S., bringing the total outflow of money to only $65.2-million.

The net gain for the U. S. was due to the remittance of dividends and fees as well as to the increased export volume generated by the subsidiaries. Dividends amounted to $81.2-million, minus $61.3-million in capital outflow, leaving a $19.9-million net gain. Fees and royalty payments brought $35.4-million. Exports of capital goods to the subsidiaries of the 19 companies came to $194-million.

In addition, Heinz testified that U. S.-made exports for resale by the subsidiaries came to $229.2-million. Then you can add, according to Heinz, about $172-million in sales to other than foreign subsidiaries that are attributable to the companies' foreign investment.

Canada agrees to use U. S.-made interceptors, help produce fighter planes for NATO

The U. S. and Canada signed a $320-million production and defense agreement this week. It called for the U. S. to supply the Royal Canadian Air Force with 66 U. S.-made fighter-interceptor aircraft, and for joint production of supersonic F-104G Super Starfighters. These planes are to be delivered to NATO countries.

Canada will receive McDonnell Aircraft Corp.'s F-101B Voodoo interceptors for service in the joint North American Air Defense Command to replace Canadian-built, subsonic CF-100 interceptors. The planes will be manufactured in the U. S. This country will absorb $80-million of the total $120-million cost.

The U. S. will contribute $150-million and Canada $50-million for joint production of F-104G fighters for NATO. Lockheed Aircraft Corp., which late last year sold $1.5-billion worth of these planes to four European allies, is prime contractor (BW—Mar.11'61,p94). Canadair Ltd., subsidiary of General Dynamics Corp., will be licensed to build the airframes in Canada. Deliveries will begin in mid-1963.

Canada also agreed to take over full operation of the Pinetree early warning radar line, located along the U. S.-Canadian border. Up to now, it has been manned jointly by both countries.

Development company formed in New York to promote private U. S. investment in Congo

An effort to attract U. S. private investment to the former Belgian Congo was launched this week with the formation of Belgo-American Development Corp. in New York. **The new company was established by a group of private Belgian companies that operate in the Congo** and that are affiliated with Societe Generale de Belgique, the big Brussels investment group.

Belgo-American's aim is to provide information to U. S. companies interested in business in the Congo and to encourage their investment there. Its chairman and president is Admiral Alan G. Kirk, former U. S. Ambassador to Russia and Belgium.

Belgium sees trade threat in proposed hike in U. S. duties on sheet glass imports

Belgium is trying to line up support in the European Economic Community (EEC) for an official protest to Pres. Kennedy against a U. S. Tariff Commission recommendation that would just about double present duties on imports of sheet glass.

With glass a major commodity in Belgian trade with the U. S., the Belgians are talking frankly about retaliatory action if Pres. Kennedy approves the tariff recommendation. They already have recalled their chief negotiator from the General Agreement on Tariffs & Trade meetings in Geneva, presumably to receive new instructions.

The Belgians argue that part of the trouble besetting the U. S. glass industry is due to low-priced imports from Iron Curtain countries, notably Czechoslovakia, and that a higher U. S. duty will work against friend and foe alike. Belgian officials also point out that the U. S. market has expanded in recent years and that imports have followed the trend.

The Tariff Commission held unanimously that imports were injuring the domestic sheet glass industry, but split 4 to 2 in favor of doubling the duties. The recommendation now is awaiting White House action.

The restiveness is worldwide

Sterling weakness, political tensions, and the trend of investors to internationalize their holdings all contribute to nervous, erratic movements in stocks

The world's stock markets were in a restive mood this week.

A combination of factors was responsible: weakness in sterling, concern about the strength of the U. S. business recovery, the continuation of international political tensions. And because a growing number of investors take an international approach and operate in many different markets, the total impact was one of nervousness and erratic movement.

The growing trend toward internationalizing of investments shows up sharply in some markets. In Wall Street, where speculative fever has dropped, share prices have also suffered because foreign investors have withdrawn what had been aggressive support. Over the past several weeks, there has been a definite slowdown in buying from abroad as foreign investors have switched their buying power to markets closer to home—for the moment anyway. Some British investors, for example, faced now with a 4% premium on the dollar, have been reluctant to buy U. S. equities.

This is a marked change from the beginning of the year, when overseas buying was heavy. Some big foreign institutions were slow in joining the bull market here—there was net selling of stocks by foreigners through the summer and fall—but when they did get on the bandwagon they bid aggressively for shares.

Brokers specializing in foreign business say that European investors now are sitting on the sidelines.

Cyclicals. Brokers say there has been some selling of overpriced scientific stocks, but not wholesale dumping. They report some switching into cyclical shares (such as steels), and some moves toward so-called defensive stocks. However, speculative interest by foreigners in new stock issues remains high.

There is no basic lack of confidence in U. S. stock prices. Most European investors take an optimistic outlook on U. S. business and stock prices for the intermediate term. But there is a widespread feeling that prices in many stocks have gone to an excess that must be corrected, and that yields in many cases do not merit buying for income. They think a technical correction may be in the wind. Despite these misgivings, however, many think the general upward movement will continue, if only slightly, for the rest of the year.

Overseas buying now generally focuses on blue chips. One broker reports purchases of General Motors, American Telephone & Telegraph, Reynolds Tobacco, and Coca-Cola. But among blue chips, buying has been selective: General Electric has been sold by a number of institutions, along with some drug stocks.

Most specialists here contend that institutional buying from abroad will not drop substantially. But there's a rising belief that the pot of funds available from abroad will not grow significantly either. The reasoning is that as Europe's Common Market expands, European investors will invest closer to home. One sign of this is that European mutual funds specializing in American securities have not grown at anywhere near the rate expected.

Historically, a great deal of European money was invested here because investors sought political and general economic stability, as well as reasonably high yields and price appreciation.

But European investors can often find those things in their own markets. In addition, sophisticated European investors are beginning to feel that some of the countries on the Continent have a better grasp of how to handle inflation than the U. S.

I. Wandering U. S. funds

U. S. investors, for their part, are taking a fresh look at European and Japanese securities.

Japan's easing of regulations regarding security transactions has met with quick approval by U. S. institutions. They still insist the liberalization is not broad enough, but they are slowly moving into Japanese securities. A number bought American Depository Receipts in Sony Corp.'s initial offering here last week, and say they are ready to make additional purchases in other stocks.

The stress, though, will continue to be on European securities, which are being reappraised in the light of a development of the Common Market—and the new trade relationships that that will bring.

European securities have shown a good deal of independence from Wall Street in the past several years, and this makes the job of choosing profitable equities that much more difficult.

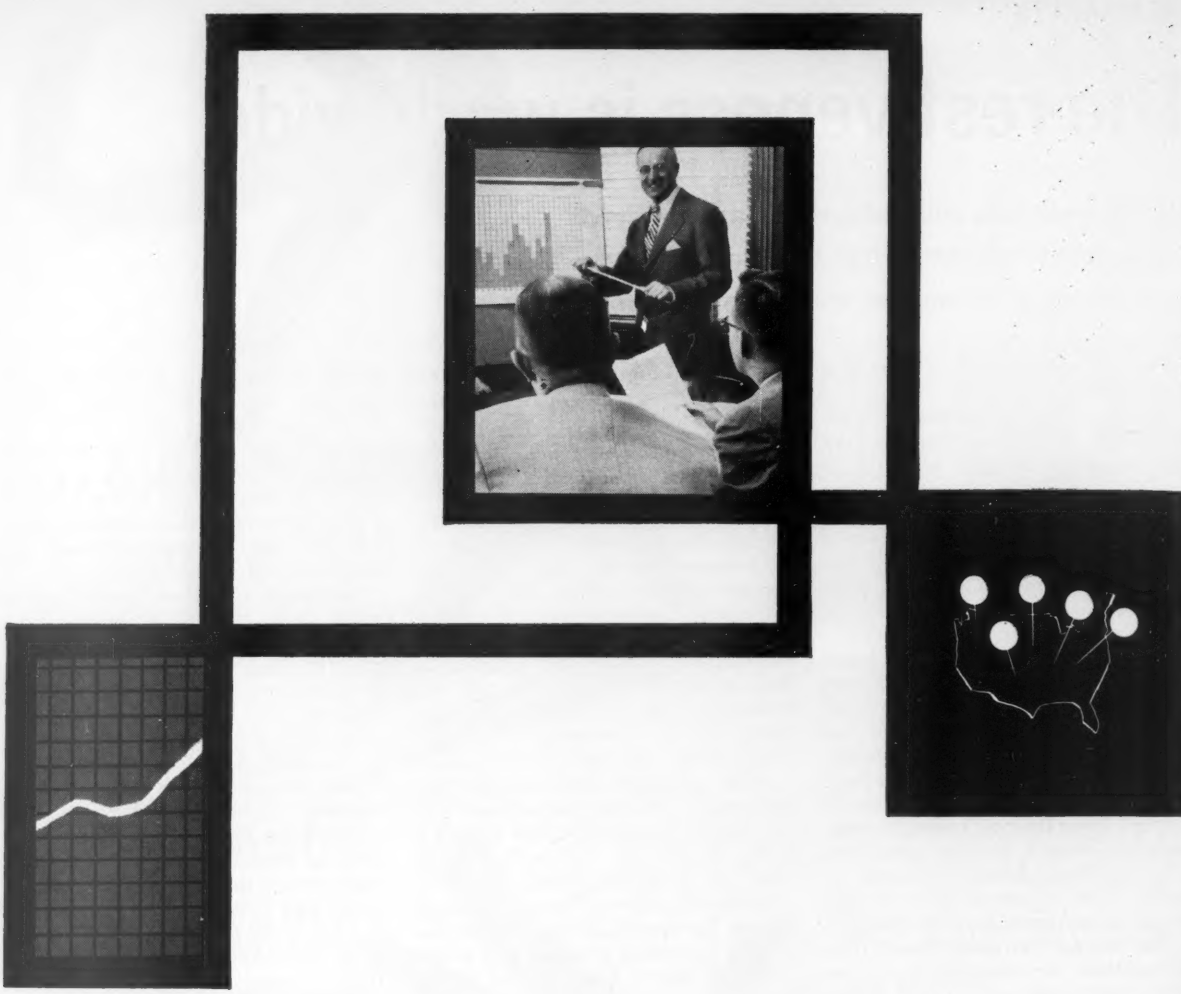
In 1960, for instance, stock prices in Germany, Holland, Italy, and France rose sharply. Yet, losses were recorded in Britain and Belgium.

The same diverse pattern was evident in the first quarter of 1961. Stock prices in Holland, France, Belgium, and Britain appreciated more, in percentage terms, than here. However, Italy and Germany fell behind the U. S. market.

Sharp spill. The second quarter has seen more of the same. London's stock market has had a sharp spill from its record high in mid-May. The Financial Times index of industrial shares is down near 341.8, the lowest since late March. There has been no panic selling, but the decline has been persistent. German markets, while apparently firm, have broken sharply twice in recent months—once on revaluation of the D-mark, once on fears of a Berlin crisis.

The French market has eased, although performance of the leaders is mixed. Italian markets are steady, but top-quality stocks haven't moved much in recent weeks; the fact that Italian banks are asking for higher stock margins is keeping the usually volatile Italian markets tamer than before.

Investors, therefore, have a hard task. It's complicated by signs that hyper-boom conditions in some European countries may be slowing down, that the Common Market will bring new earnings power to hitherto neglected companies, and that profit margins in some big companies have



been squeezed by competition. Britain's Glaxo Laboratories, for one, notes that competition in export markets for its drugs has affected earnings. Philips Lamp, one of the U. S. institutions' pets, also has seen its growth rate slowed.

As many U. S. analysts see it, all this will force changes in buying habits. Explains Robert E. Gibbons, vice-president of Parker Corp., investment managers for two mutual funds, Incorporated Investors and Incorporated Income: "The time has come for those of us who have been investing abroad to shift our sights. For instance, we'll probably reduce our British holdings, in order to participate more on the Continent."

II. Shift to consumer stocks

Most American investors—individuals or institutions—stick chiefly to the blue chips of European industry, partly because they are the foundation of any portfolio. This trend probably will not change for a good while, even though sophisticated U. S. investors believe there is lots of money to be made in stocks of smaller companies, despite the fact that the markets in them are thin.

Up to now, most U. S. buying has been in heavy industry shares or in bank stocks and their prices have appreciated sharply. Now the emphasis may be away from steel, chemical, and oil shares, toward, say, consumer stocks that would benefit from a rise in disposable income, and installment credit.

Thus, U. S. institutions have taken a position in Belgium's Gevaert, in England's Great Universal Stores, in France's Societe Credit Mobilier or the large department store, Le Printemps, which is moving into supermarkets.

Fortunately, there are indications that European management, while still preferring to mask financial doings, is unbending a bit, as more institutions buy their shares. For example, Hoogovens, a leading Dutch steel producer, has now joined the few continental companies that publish interim reports on their operations.

Still, accounting practices abroad continue to perplex the average U. S. analyst. A Model, Roland & Stone letter cites the case of France's Pechiney Corp. In 1960, Pechiney reported earnings at 10.5% below 1959, after depreciation charges that exceeded those of earlier years by no less than 68.5%. Actual earnings, on the other hand, including earnings retained by subsidiaries, which are not reported, would produce a more favorable picture.

New troubles for the ASE

SEC stops proposed secondary offering of Hazel Bishop stock, and questions role of specialist. Exchange head claims that agency acted in ignorance of the facts

The American Stock Exchange got another jolt last week when the Securities & Exchange Commission stopped a proposed secondary offering of 1.3-million shares of Hazel Bishop, Inc., the cosmetics concern —and questioned the role of an ASE specialist, Gilligan, Will & Co., in the transaction.

At the least, information gained in this case will be used to guide the SEC in its current probe of ASE practices, initiated after the disclosure of alleged manipulation in a case involving another ASE specialist, Gerard A. Re, and his son, Gerard F. Re. This new case will sharpen SEC's focus on the role of specialists, and will also open a new area of investigation—the practice of issuing unregistered shares of stock.

The Hazel Bishop case may have other implications. While some ASE members are wont to shrug off the incident, others suggest that complete overhauling of the Curb's practices may be forthcoming.

In its stop order, SEC described Gilligan, Will as the exchange's specialist in the company stock, and noted that it is one of a group of Hazel Bishop stockholders who planned to sell shares. The commission said a conflict may exist in this situation—between Gilligan, Will's role as a specialist (with a duty to maintain a fair and orderly market) and as a selling stockholder. SEC rules forbid bids or purchases by any person participating in a distribution, or attempts to stabilize the price of a security offered "at the market."

ASE statement. Edward T. McCormick, president of ASE, immediately replied that the exchange was fully aware of the SEC rules. But, he said, the stock had been removed from the specialist's post "long before the proposed effective date"—on May 18, to be exact—and that the SEC was obviously unaware of the facts concerning the situation.

SEC admits it was unaware, but an official explains that the agency was not informed of the change. Moreover, other observers felt that ASE had been slow to remove Gilligan, Will, since the company filed its original registration statement in June, 1960.

Publicity. In any case, the stop order would have been issued even if Gilligan, Will weren't involved. For it was SEC's decision that falsifications and distortions in the company's registration statement required wide dissemination. SEC, therefore, issued the stop order after exercising its prerogative not to consider amendments filed by the company—which may have already corrected all deficiencies.

SEC's battle with Hazel Bishop goes back to the company's filing, as amended last October. The commission felt the document was misleading in a number of respects:

- The company showed net income of $102,258 for the fiscal year ended Oct. 30, 1959, but "under proper accounting practices," the SEC said, the company actually incurred a loss of $707,996. The company has since agreed.
- The company showed an unaudited net profit of $136,535 for the 10 months ended Aug. 31, 1960. But in a March amendment, the company reported a loss of $354,538 for the fiscal year ended Oct. 31, 1960.
- The company's original statement said that from January, 1959, through Oct. 10, 1960, the closing price of Hazel Bishop ranged from a high of $10 a share to a low of $3.50. SEC said the $10 a share figure was misleading, because the price was reached only on one trading day, after a newspaper columnist (Walter Winchell) predicted higher sales and earnings. The stock traded at $6.37 this week.
- SEC also said that the 1.3-million shares that holders want to sell should have been registered when they were sold originally in 1959 to 1960. The company claims they were exempt from registration as a "private offering" to a limited number of buyers.

As a matter of law, SEC will be forced to lift its stop order if and when it is satisfied that all deficiencies in Hazel Bishop's registration statement are corrected. But it feels it has made its point by bringing the whole case to light. **End**

Wall St. talks...

about bond analyst "want ad," Japan's balance of payments, S&Ls' dividend rate

Bert A. Betts, California's state treasurer, who has stirred up a lot of resentment in **trying to second-guess the bond market** in his financing operations has decided to call on Wall Street for help. Betts is advertising for a bond market analyst to cover the municipal bond market and to maintain "cooperative" relations with investment bankers.

Japan may be the next country with balance-of-payments trouble (page 131). Swiss bankers say that a flood of hot money—attracted by short-term rates over 8%—has covered up a "basic deterioration of the payments position." The Swiss predict that foreign lenders may become chary of investment in Japan, "a fact that could prove rather embarrassing to Japan's authorities, as the financing of the payments deficit could fall entirely on the reserves."

Savings and loan men say there's a definite chance that **S&Ls in California may increase the dividend rate** they pay on savings above the present 4½%, despite Washington pressure to bring the rate down. Behind the talk is a new Federal Home Loan Bank Board regulation permitting federal S&Ls to pay "bonus dividends" on money left on account for a specified period of time. A few big state-chartered California S&Ls don't have authority to pay such bonuses, and they may put through a general rate increase to protect their competitive position.

One of the favorite games of oil analysts these days is to pick out those companies likely to be on the auction block. **Latest target is Argo Oil**, and talk is that $75 a share might be the asking price. Argo is now selling close to 50, its high for the year (1961 low: 37½).

Some semiconductor companies are in deep trouble and the shakeout in the industry—and the stock market—may accelerate, according to industry experts. Prices are under severe pressure, competition—particularly from Japan—is rising, and there are unsettling shifts in scientific and sales personnel.

In the markets

BW

Fed apparently bows out of "Operation Nudge," as it allows bond prices to drift down

Evidence continues to accumulate that "Operation Nudge"—which helped support the bond market through the end of April—has come to an end. This week, for example, bond prices drifted downward, but the Federal Reserve made little, if any, attempt to modify the trend. As one bond trader put it: **"Prices are being allowed to find their own level."**

This is in line with the testimony of Fed Chmn. William McC. Martin, Jr., before the Joint Economic Committee last week (BW—Jun.10'61,p28). He said: "We do not intend to peg interest rates. . . . We can, perhaps, moderate them, but we cannot control them." **Some bond men are interpreting this statement as a clear indication that if business continues to improve, the Fed will move away from its present policy of ease.**

There are some dissenters to this point of view, however. Girard L. Spencer of Salomon Brothers & Hutzler, for example, feels that Martin's statement "does not appear to forecast any change in the Fed's easy money policy. . . ."

Taking into account the heavy schedule of Treasury financing between now and the beginning of August, Spencer says "it seems unlikely that the market can have a material advance. On the other hand, the recent decline, assuming continuation of the current monetary policy, appears to have discounted the improved outlook for the economy. If this is correct, the market should stabilize around current levels."

New real estate investment trust may mean competition for mutual funds, savings groups

A new type of investment medium may provide competition to both mutual funds and savings institutions. **It is the First Mortgage Fund, a closed-end real estate investment trust scheduled to make its debut soon. A syndicate headed by Shearson, Hammill & Co. is planning to market 1-million shares in the fund.**

First mortgage will be the first trust dealing exclusively in mortgages to be set up since passage of the Real Estate Investment Trust Act of 1960. All the others own buildings and get an independent management group to operate them. **But First Mortgage Fund will put half of its portfolio in FHA and VA paper, the rest in development and construction mortgages on projects with FHA approval.** It plans to concentrate on high rate areas—Florida, Texas, Arizona, California.

The new trust also will be in a position to get prime commitments on development and construction loans through mortgage companies. First Mortgage figures it should be able to pick up 5½% FHA mortgages at nice discounts, and average 10% to 12% on its development and construction loans. Once initial funds are committed, the return will be leveraged by further borrowing against its mortgage holdings.

Announcement of the offering created concern in savings and loan institutions, which will have to compete both for savings and for mortgages. Mutual fund sales might also be affected. For First Mortgage, like other real estate investment trusts, must pay out 90% or more of income to qualify for exemption from corporate taxes; with returns high on real estate investments, investors seeking yield are likely to be attracted.

Church of England's finances guided along unorthodox but profitable route

The commissioners of the Church of England—some astute financiers from London's City—guide its finances with legendary success. In years past, they did well in real estate investment in Britain and abroad. But they are now demonstrating their skill in equities.

In 1948, the commissioners were first allowed to hold industrial shares, along with traditional gilt-edged securities and land. Since then, the Church has doubled its income—its primary goal, (with subsequent increased stipends to its clergymen)—and the market value of its equities has soared. **Book value of its industrial shares is now some $210-million, one-third of invested capital, while market value is closer to $358-million.**

The policy producing these results has now been laid out in a quarterly publication of the Stock Exchange Council. First, **money has been invested in a fairly narrow range of companies**—288 in all. The commissioners believe in large holdings, not in a larged mixed bag that might average out favorably.

Secondly, "as a matter of conscience," they have not bought shares in liquor companies, newspapers, entertainment enterprises, or armaments companies.

Thirdly, **they have never invested for capital gains, but solely for income.** This has proved troublesome of late, what with the spate of takeover bids in England. The Church often has big positions in some of these stocks, and it does not welcome takeovers when shares have to be surrendered.

Mutual fund gets new tax status and jumps

Nelson Fund, Inc., a small offbeat mutual fund that's heavily committed in European securities, jumped $310 a share (to $5,103) in one day this week—but not because of any marked shifts in its portfolio. Rather, a change in the fund's tax status was responsible.

Until now, Nelson Fund technically was a personal holding company because it had too few shareholders to qualify as a regulated investment company that can distribute its income to its stockholders without paying federal taxes. **But it got around paying taxes through a special ruling allowing it to accumulate funds in lieu of taxes in a special reserve.**

This week, Nelson Fund finally had enough shareholders to qualify as an investment company. The reserve—which will have to be paid out to shareholders as a dividend—was added to its net asset value.

Personal business

June 17, 1961

Points for hotel guests to remember

You probably spend a lot of time in hotels through the year, on travels for business or with your family on summer vacations.

You may save some time, trouble, and perhaps even cash by remembering some rules covering the obligations of an innkeeper—and of a guest, too. **The rules imposed by law work both ways,** if you should happen to suffer accident, injury, or loss. Generally, though, they're weighted in your favor.

Basically, **the hotel keeper is responsible for your personal safety, and for the protection of your property.** He is compelled to exercise "ordinary care" in keeping his premises and equipment free of hazard—hidden or otherwise. He can't, for example, let a faulty staircase go unrepaired and assume that you or your wife or children will discover the danger and tread the stair with special caution.

On the other hand, he isn't legally responsible **unless a guest's injury can be traced to his act of neglect or negligence.**

And you may get no recovery of damages **if your own carelessness contributed to your injury.** Even slight negligence on your part—as against his more obvious neglect—will usually rule you out.

Children are a special case

The hotel must maintain its premises free of danger to youngsters—within reason. Here the hotel's duty, in effect, is close to that of an "insurer."

An **"attractive nuisance"**—a feature like an indoor swimming pool or a self-operating elevator, that might logically attract and injure small fry—**is operated by a hotel at its peril where children are concerned.**

But if your child carelessly or willfully damages hotel property, **don't expect freedom from liability because of the child's age.** In some cases, you may be held responsible for failing to supervise the child properly. And even a small child can be sued and his personal estate held accountable.

Hotel must guard your property

The hotel keeper's responsibility for personal property also puts it in the "insurer" class. Generally, if your property is stolen from the premises, the hotel is legally responsible whether or not it was negligent. **But there are exceptions to this rule:**

- **Guest's negligence.** A hotel keeper isn't responsible if it can be clearly shown that the property loss or damage was caused by a guest's own neglect—failure to lock the door to your room, for example, if it amounts to negligence on your part. The courts say you must exercise "ordinary care."
- **Natural hazards.** To relieve the hotel of legal responsibility, a storm, flood, or fire must be shown to have been the sole "proximate cause" of the damage. If the hotel failed in any way to take reasonable precautions, then it remains responsible. Here the assumptions are generally in your favor.
- **Rules and notices.** A hotel may make reasonable rules to protect itself in the event of a guest's property loss—the common one is that cash, jewels, etc., must be stored in the office safe. But generally this must be done by giving actual notice to the guest. It isn't enough, for example, to post a notice in the guest's room, or on a bulletin board in the lobby.

Money and jewels

True, some state laws let the hotel keeper limit his liability if he provides a deposit box for guests' valuables and posts notices in certain specified places—but these rules are very strictly construed in favor of the guest.

Obviously, the hotel is responsible if your property is missing from its safe. But a maximum amount for recovery is fixed in some states. If you have very large amounts of money on hand, or valuable jewelry, it might be wise to use a local bank or other safekeeping.

Caution: A hotel's high degree of responsibility to guests may not protect you in some of the public parts of the hotel. For instance, if your wife has a fur coat stolen from the cocktail bar—open to the public—you may have to prove negligence on the part of a waiter or check girl.

New concept to watch in retirement plans

You may want to keep an eye on the variable annuity—the insurance-based plan intended to help safeguard the purchasing power of your retirement dollar from inflation, through investment in common stocks. Conventional annuities, by contrast, are based on investment in fixed-return securities.

This week the Securities & Exchange Commission started digging into the variables' pros and cons, in hearings to decide whether Prudential Insurance Co. of America can go ahead with selling them.

The Pru is likely to run into some stiff opposition. However, if SEC gives an all-clear sign, variables can go on the market in states that also have approved. In that case, **you can expect a number of leading life companies to enter the field.**

Variable annuities are now publicly available on a small scale from two District of Columbia concerns, Variable Annuity Life Insurance Co. of America and Equity Annuity Life Insurance Co.

For an investor, the variable annuity poses a risk—a clear-cut risk, since you bet on over-all stock market performance. But you may want at least to consider the variable as a possible part of your retirement program.

Of course, **you should look at it in the light of your other planning—** expected income from stocks and other securities you own, real estate, pension funds, Social Security, and so on.

Mutual fund approach: Although the variable seems primarily an insurance company plan, there is some move under way by mutual funds to take up the idea. For example, Waddell & Reed, Inc., a mutual fund distributor, is sponsoring a plan offering certain mutual fund shareholders a chance to switch into a variable contract.

New books added to Americana

You can rediscover our country's rugged past with the aid of a variety of new volumes. Some may fit into your summer travel plans:

- **The Great Lakes Frontier—An Epic of the Old Northwest,** by John Anthony Caruso, tells the saga of the acquisition of the territory that became five states and recreates the everyday life of the times (Bobbs-Merrill, $6.50).
- **The Southwest—Old and New,** by W. Eugene Hollon, provides a social, political, and cultural history of America's oldest and newest frontier—from cliff-dwellers' communities to modern cities (Knopf, $7.50).
- **The Exploration of the Colorado River and Its Canyons,** by J. W. Powell, is a reprint of the famous journal by Major Powell, Civil War veteran who led his party on an incredible trip from Wyoming to Arizona (Dover, $2).
- **The Lost Towns and Roads of America,** by J. R. Humphreys, details a cross-country auto tour along forgotten byways (Doubleday, $4.95).
- **Over the Counter and on the Shelf—Country Storekeeping in America, 1620-1920,** by Laurence A. Johnson, treats fully the oldtime "cracker barrel" store—a world all its own (Tuttle, $5.95).

In new products

BW

New 8-mm. sound projector has own screen, handy for sales and training films

Last year, Fairchild Camera & Instrument Corp. introduced an 8-mm. motion picture camera with a built-in sound recorder (BW—Jan.30'60, p70). Now, Fairchild has a fully transistorized, 8-mm. sound projector with a built-in screen. **The projector is mounted in a carrying case about the size of a portable typewriter. As you lift the front flap, a rear-projection screen, hinged at the top, swings down into place.** When there's a large audience, a special mirror attachment can be used to throw the image up on a regular screen.

Unlike the 8-mm. camera, the new projector isn't aimed at the consumer market. Fairchild is pushing it more for training, sales, and the like. One advantage in sales, for instance, is its continuous-play magazine. With this special magazine, and with the ends of the film spliced together, the projector will repeat the film automatically. This eliminates the need for rethreading after each screening.

The projector, which uses a magnetic sound pickup, comes in two sizes: the "Cinephonic 200" for 200 ft. of film, running 11 min., and the "Cinephonic 400" for a 22-min., 400-ft. film. The list price on the "200" will be $399, and for the "400," $429. This compares with $259 for Fairchild's regular 8-mm. sound projector, and $600 to $700 for most 16-mm. projectors.

Fairchild is still only in pilot production, but expects to be in full production by fall. The projector will be carried by a special dealer network now being set up.

Currency packager counts your bills, ties them in tidy bundles

For banks that want to make bundles of money, Currency Pre-Packaging Machine Co. has just the thing: a machine that, in effect, counts paper currency, then wraps it into tidy little bundles at the rate of 3,600 bundles an hour.

These packages might be for large department stores that start each day with a set amount of currency in each cash register, or for the bank itself on busy payroll days when cashing checks.

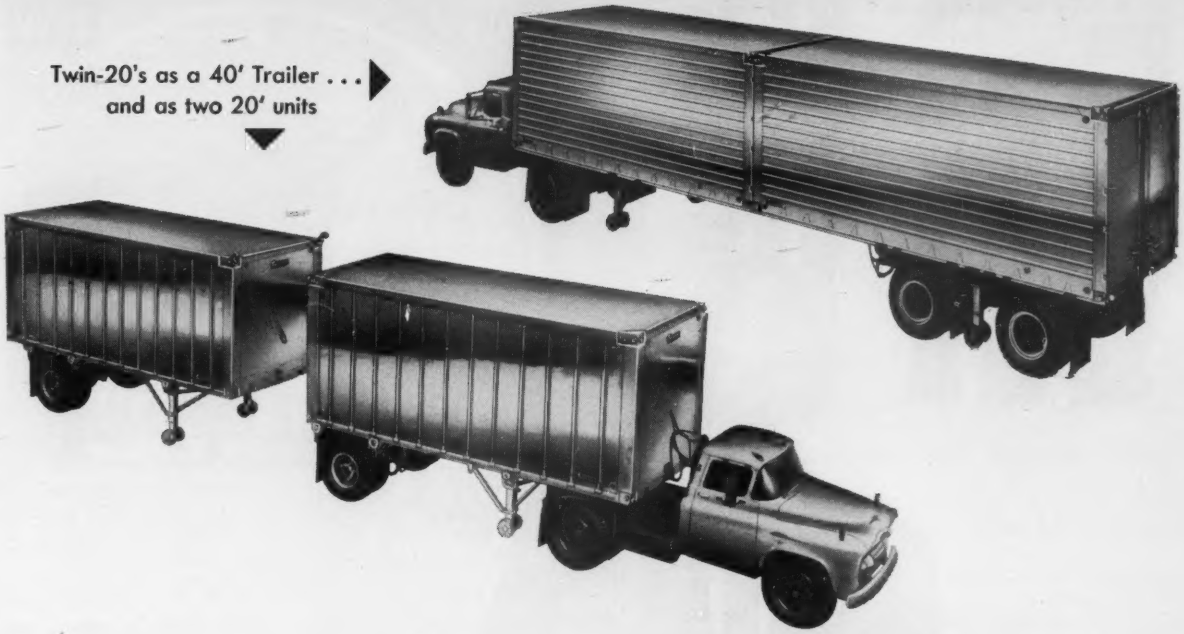
The machine uses an automatic feeding device developed originally by Thiele Packaging Machinery Co. for placing coupons inside food packages. In the Currency Pre-Packaging machine, paper money is loaded into trays or magazines. The number of trays used—there are seven altogether—depends on how many bills you want in each bundle. **Two small suction devices pick up single bills from each tray, and deposit them onto wrapping bands that move along a conveyer.** At the end of the line, the bands are sealed, and an electronic sensing device checks the bundle by measuring its thickness.

The cost of the bundling machine—complete with automatic feeder—is $12,000; without the automatic feeder, $8,000.

Fuel oil meter totals sales dollars, too

Lockheed Electronics Co. has a new "Computing Register" for fuel oil delivery trucks that automatically itemizes the number of gallons delivered, price per gallon, sales tax (if any), discount (if any), and the total dollar value. Other meters indicate just total number of gallons delivered. Price for the Lockheed register, depending on accessories, runs from $496 to $594 per installation.

Twin-20's as a 40' Trailer . . .
and as two 20' units



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BUS

New look in business schools

Under an enterprising businessman dean, Stanford's B-school is updating methods and philosophy, revising curricula. Its goal: to turn out tomorrow's versatile executive today

In the stream of black-robed figures in mortarboards that gushed forth from college campuses this week was the yet unidentified management man of the 1970s—the uncommon man who is tagged as the chief executive of the 1980s and beyond.

What kind of business leader will he be? This depression-born product of our graduate schools of business, before his matriculation at Columbia —or at Harvard, Wharton, MIT, California, Chicago, Carnegie Tech —saw two wars etched in the pages of our history and a revolution in the science of management. What kind of academic preparation has he had for a life geared to the digital computer?

For one answer, turn your gaze across the U. S. to the once pastoral campus of Stanford University, whose Graduate School of Business is now girding for a minor revolution of its own. The university occupies a corner of a 9,000-acre site adjoining Palo Alto, Calif.

I. Businessman in saddle

In the past three years the Stanford Business School has undergone transformation in every dimension. Yet it's only on the threshold of a change that's deliberately, if optimistically, calculated to shape the course of business by molding the leaders of tomorrow.

This is not the starry-eyed vision of a pedagogical dreamer. It's the sober work assignment handed the faculty by a business executive who is applying his own proven management skills to the management of business education—Dean Ernest C. Arbuckle. "The time is past," says Arbuckle, "when business schools can be content to follow. We must anticipate business trends by giving our students the intellectual tools they will need five, ten, or more years from now."

Part of trend. Stanford is not alone in this transition. In business schools across the country, the acids of two highly critical survey reports on business education (BW—Oct.31'59, p84) have been searing the hides of deans and faculty men since their publication two years ago. The two surveys attacked the B-schools for their concentration of functional, "vocational" training, their avoidance of true intellectual preparation.

End of an era. An era had ended at Stanford in 1956 when J. Hugh Jackson retired as dean of the B-school. Jackson left, as a memorial, something more than his name on the school's bulging library. He could look back on a 30-year span that produced some pillars of the business community. In the class of '36 was young Ernie Arbuckle, sporting a Master's degree at 23, and 20 years later a vice-president of W. R. Grace & Co. and a trustee of the university.

Pres. J. E. Wallace Sterling appointed trustee Arbuckle to head the search for Hugh Jackson's successor. Associate Dean Carlton A. Pederson kept the Jackson chair warm while the two-year hunt went on. It was another trustee, Edmund W. Littlefield, executive vice-president of Utah Construction Co., who finally pointed out that Arbuckle himself was a first-rate candidate for the job.

Sterling agreed. While he never put it in words, his willingness to break with tradition and install a profit-oriented businessman as dean was pretty clearly a challenge to the business community, which has often been critical of the colleges.

Personal challenge. It was no less a challenge to Ernie Arbuckle. The new job cost him his seat on the university's board of trustees and a 50% cut in salary. And, cast adrift in a sea of Ph. D.'s, he didn't take long to decide that deans, whatever their heady powers, occupy a low rung on the academic ladder.

A few days ago a Business Week reporter roamed among the scholars responsible for the Stanford B-school's solid reputation, sampling their opinions of the businessman dean. Frank K. Shallenberger, professor of industrial management, summed it up this way:

"Around here you don't dare to offer a new idea unless you're prepared to give it the time for a full follow-through. Ernie blots up new ideas like a sponge."

Funds for faculty. If businessman Arbuckle had done nothing else to earn such a salute from the academic ranks, his abrupt assault on faculty salary schedules would have won him ready acceptance in the club. With whatever outside funds he could muster, the new dean brought pay scales up to par with those of the best business schools—a gradual rise of about 35% in three years.

He also attacked the teaching load. The postwar surge of enrollments had tripled the student body without a corresponding rise in the teaching staff. Including appointments for next fall, Arbuckle has increased the faculty by 40% without allowing student enrollment to rise. Counting the handful of visiting professors appointed for varying terms and the 17 new men added since 1958, Arbuckle has narrowed the student-faculty ratio from 25-to-1 to about 11-to-1.

One result of the reduction in teaching load is that members of the faculty, for the first time in 10 years, have time for research. Dale Yoder, chairman of the research committee, says that at least nine members of the faculty are engaged in voluntary research projects. The school employed five research assistants in the year just closed, will take on 20 in the year ahead.

II. Long-range plan

Arbuckle tackled his job in about the way you'd expect of a businessman steeped in the habits of the executive suite. He saw his job as one of fostering a climate in which competent scholars could perform the basic functions of a university—teaching and creating new knowledge through research.

The new dean sought the advice

Dean Ernest C. Arbuckle applies his own proven management skills to the management of business education.

Stanford's Business School, founded in 1925, finds alumni an enthusiastic source of support. Here, luncheon brings together "pioneers" and wives.

of his own faculty. He traveled to the campuses of rival schools. He invited distinguished thinkers to the Stanford campus. The sum of all this probing was an ambitious 10-year development program that went far beyond the obvious need in bricks and mortar.

Educational catalyst. In the execution of his long-range plan, Arbuckle seems to have assumed the role of catalyst, facilitating the smooth interaction of all the ingredients that go into the modern educational product. These start with student body, faculty, curriculum but go on to those external influences that bear on contemporary education—alumni, university administration, academic community, business, philanthropic agencies, government.

Stanford has the only business school operating exclusively on the graduate level west of the Mississippi. The school awards only two degrees, Master of Business Administration and Doctor of Philosophy, each requiring two years' study. In the past two years both courses have been changed significantly, and more changes are in prospect.

New stress. In the M.B.A. program, much of the emphasis on the functional areas of business—finance, marketing, manufacturing, employee relations—has been shifted to such subjects as economic analysis, quantitative applications to business problems, and management of human effort. Psychology and communications are getting new emphasis. A new required course in business policy formulation and administration, Arbuckle calls it the capstone of the M.B.A. program, illustrates the stress that Stanford puts on developing a general management point of view.

Two new required courses in economics were added this year, and an advanced course in mathematics makes its debut in the fall. These courses, designed to familiarize the business executive of tomorrow with quantitative techniques in decision-making were put together by James E. Howell, a co-author of one of the 1959 survey reports.

Better students. For each of the M.B.A. classes of about 200—a total enrollment of 400—the school screens upwards of 700 applications. To maintain a high standard of quality among applicants, Arbuckle took his cue from business, which sends about 500 recruiters a year to the campus with job offers. Two years ago the dean launched a student recruiting program, and this past year five members of the staff visited 52 campuses to interview prospects.

The recruiting team also keeps an eye open for likely candidates for the B-school's doctoral program, which has undergone curricular surgery at the hands of a Ph.D. committee headed by Oscar N. Serbein, professor of insurance. Arbuckle sees it as the school's responsibility to assist in the improvement of business education by creating teachers of a high level of competence.

In the academic year just ended, the B-school had 42 doctoral candidates. Arbuckle's long-range program contemplates a doctoral enrollment of 100 by 1970.

Cooperative spirit. Unlike some of his contemporaries in business education, Arbuckle enjoys the advantage of a close working relationship with the administration and with the other schools of his uni-

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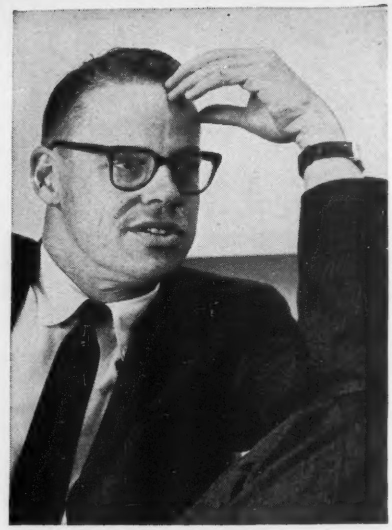


Prof. Charles A. Anderson, former Magna Power Tool Corp. executive, is typical business-seasoned teacher.

versity. When the B-school celebrated annual Alumni Day a few weeks ago, Arbuckle was in South America on school business. To pinch-hit for him as host to the alumni, Wally Sterling shunted aside the duties of the president's office. This unity is apparent, too, in the joint faculty appointments Arbuckle has engineered with other departments of the university.

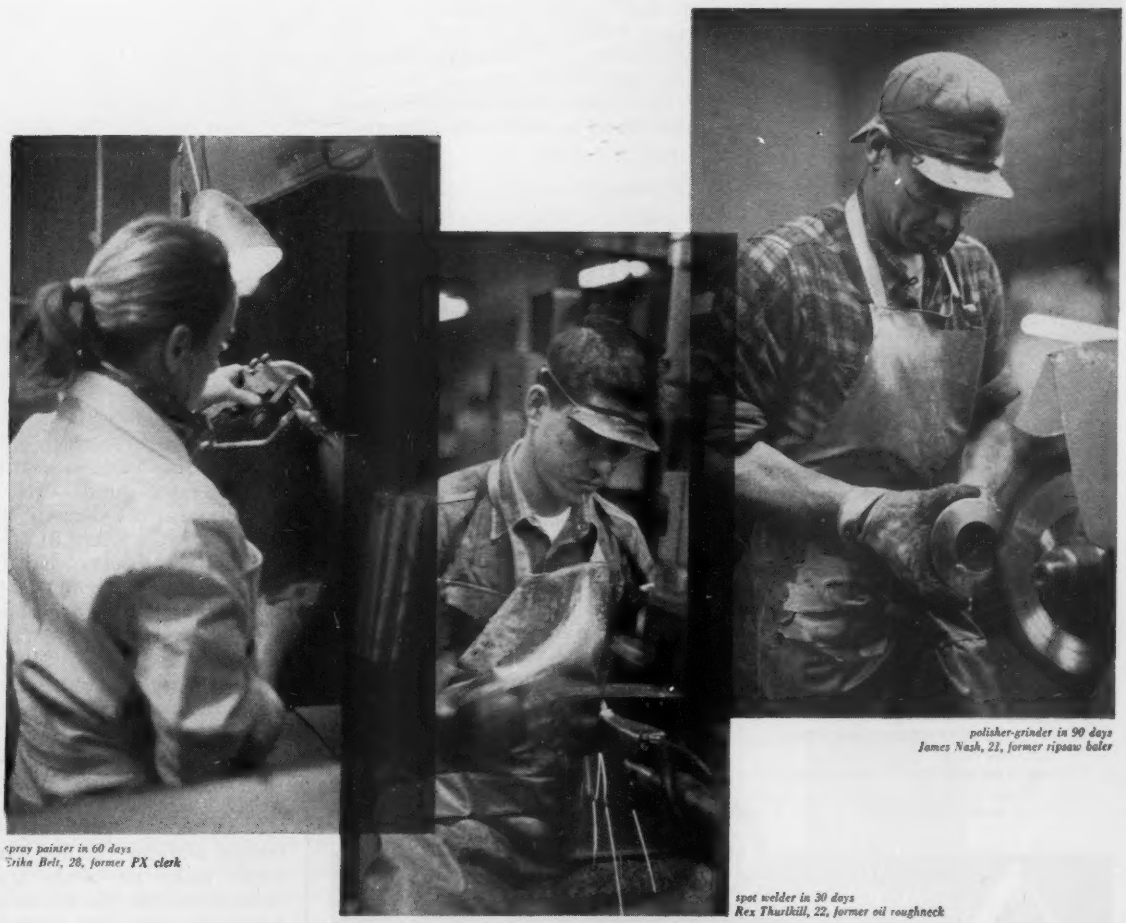
III. Ties with business

Even before Arbuckle's arrival on the campus, the Business School had established close ties with business, and the new dean has strengthened them. You see the identification in a variety of ways—in past and present business affiliations of faculty members, in the special programs offered for business groups, in the volume of fresh case study material developed for the students, in the counsel and financial support that business tenders to the school.

Executive advisers. Nobody was surprised when Arbuckle, as one of his first moves, lined up an advisory council of 30 prominent businessmen. But surprise came with the discovery that it was a working council, not a letterhead committee. Arbuckle had told the members of his ambition to destroy the illusion that the Stanford B-school is a finishing school for rich men's sons. He asked them to devise ways to enable any qualified student short of funds to finance himself through school.

To explore the problem, Chmn. George Montgomery named a committee of three—Elden Smith of the Security-First National Bank, Los

Intelligent and readily trained, that was Prescolite Manufacturing's evaluation of Arkansas labor when it decided in 1958 to locate a branch plant in El Dorado. Capable labor was crucial to Prescolite. The West Coast firm had a national reputation for quality lighting fixtures to maintain. Herein lies the proof: plant area doubled, labor force quadrupled, Mid-Continent territory expanded, sales up 20%. The Arkansas Industrial Development Commission, State Capitol, Little Rock.



spray painter in 60 days
Erika Belt, 28, former PX clerk

spot welder in 30 days
Rex Thurlkill, 22, former oil roughneck

polisher-grinder in 90 days
James Nash, 21, former ripsaw baler

Trained to their skills in 30-90 days

THIS IS ARKANSAS

Angeles; William Herbert Carr of California Packing Corp.; and Robert S. McNamara, then vice-president of Ford Motor Co.

Unique loan program. The three came up with a unique student loan program enabling any M. B. A. student to borrow up to $2,000 a year at low interest. Elden Smith's bank lends the money to the university, which maintains at the bank a reserve fund equal to 10% of outstanding loans; the university lends to the students and assigns their notes to the bank. Interest, at 1%, is capitalized into a student's loan until six months after he graduates. Then the rate rises to 5%, and the borrower has five years to retire the loan.

Members of the advisory council admired the program because, while serving a practical purpose, it also gives the business students an early taste of financial responsibility. At the close of this academic year, 204 students had borrowed $101,935 against the university's lending power of $760,000.

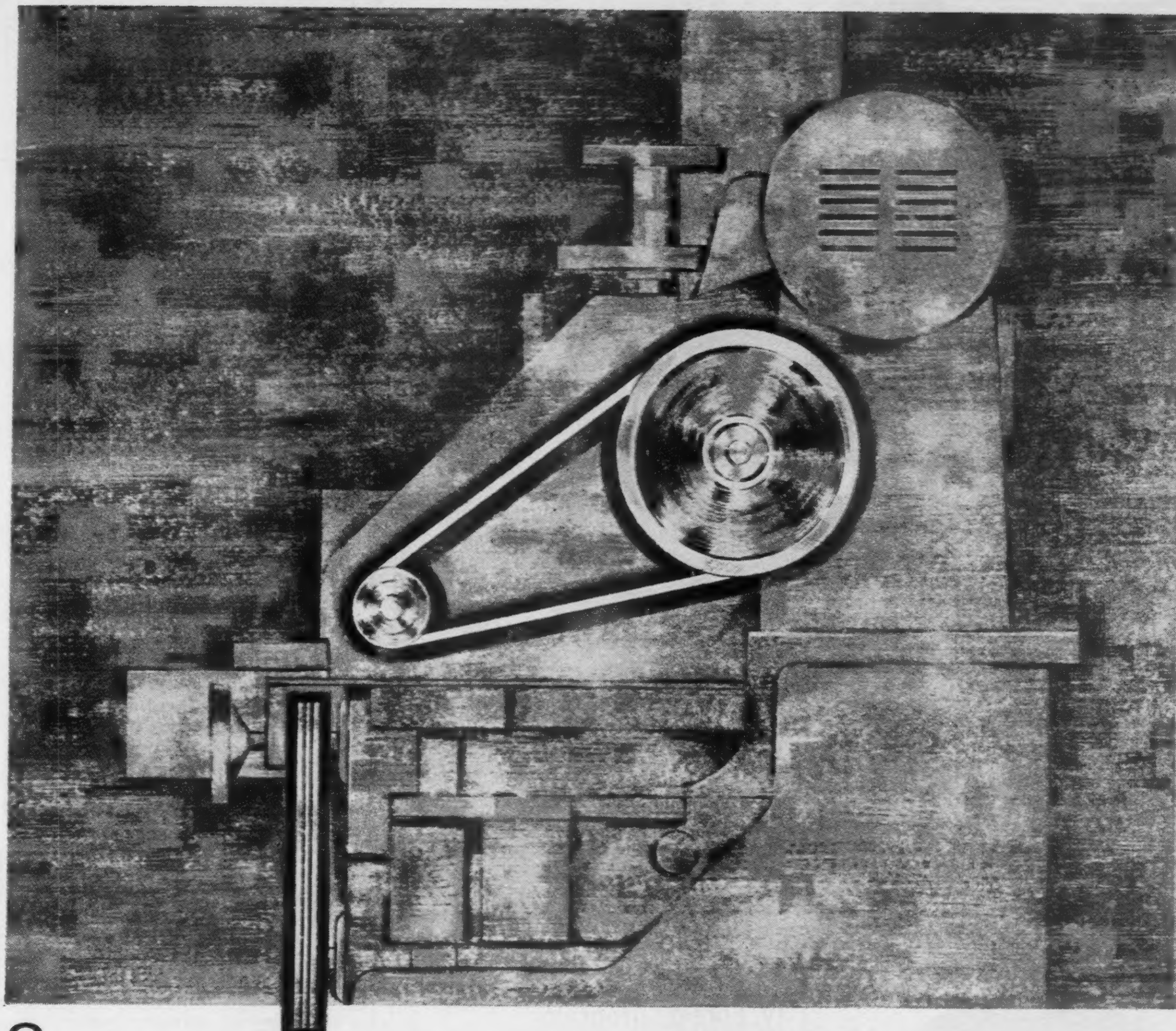
In addition to the advisory council, Arbuckle has appointed 22 prominent businessmen as consulting professors. As their busy schedules permit, these men lecture at the school, receive class visits at their office or plant, and confer with the regular faculty about research and course development.

Finances. For its straight academic program, the school spent $763,000 in the 1960-61 academic year, about 77% of it for faculty and staff salaries. A little less than half of the money came from the university's general funds—that is, from the school's 75% share of tuition.

For the remaining 51% of operating funds, the school had to find its own resources. About $50,000 came from alumni gifts. Another $27,000 was income from the school's endowment funds. And a fat $103,000 came in $1,000-a-year contributions from both business concerns and individuals.

The school's intimate association with its contributors, advisory council members, and consulting professors is really a two-way street. Arbuckle and the faculty, on the one hand, make no bones about their dependence on the businessmen for financial and moral support, and for help in keeping the school's intellectual goals high and its aim sharp. The businessmen, on the other hand, enjoy both the prestige of participation in high-level education and the comfortable assurance of a self-perpetuating reservoir of competent management talent.

Special courses. Perhaps to a greater extent than other business



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schools, Stanford has devoted its physical facilities, meager as they are, to those supplemental training programs that have won increasing popularity with business in recent years. The school is noted for its annual eight-week executive development program, whose alumni award themselves the degree of P.B.E. (pot-bellied executive). About a dozen special courses and seminars in insurance, transportation, credit, financial management, wholesaling, mortgage banking, and the like draw hundreds of businessmen to the campus each year.

Stanford-Sloan Program. Most notable of all the special courses is the Stanford-Sloan Program in Executive Management, which pulls together for nine months of concentrated study half a dozen selected doctoral candidates and a dozen young (30 to 35) business executives of impeccable academic background and exceptional managerial potential.

The business origins of the foundations that help the Stanford Business School are obvious in their names—Sloan, IBM, Price Waterhouse, Rockefeller. The Ford Foundation has also been generous. A year or so ago it financed a special regional conference on business education for Stanford and the University of California. On a grander scale, Ford gave Stanford $1.5-million to be used over a 10-year term to strengthen the faculty, finance faculty research, and support visiting professorships.

IV. Foreign program

Last year the Ford Foundation approached Arbuckle with $3.5-million in hand and a proposal that Stanford assume the leading role in creation of a program of instruction for foreign business school teachers. The grant will finance the program for seven years.

From this grant is emerging the International Center for the Advancement of Management Education (ICAME) under direction of Ezra Solomon, who until this spring was professor of finance at the University of Chicago.

ICAME will offer a one-year crash program of study, starting in July, 1962, to about 40 business teachers from the developing areas of the world—Asia, Africa, Latin America. Enrollment will be expanded to 60 in the years that follow. The visiting teachers will be trained to develop curricula in the basic fields of management—finance and control, marketing, personnel relations, production. **End**

A positive code of ethics

Instead of setting up "shalt nots," business managers should adopt a more professional attitude and a simple and affirmative ethical yardstick, Harvard professor says

"There is no question but that the five-percenters in Washington, the deep freeze and mink coats and oriental rugs for government employees, the payola in TV programs, the collusion of businessmen and union leaders with organized crime, the price-fixing cases in the electrical industry, and the conflict-of-interest revelations about business leaders have all raised public questions as to the standards of conduct of businessmen."

So spoke Prof. Robert W. Austin last Friday at the 31st annual National Business Conference of Harvard Business School, and when he was done, a thousand returning alumni gave him an ovation that old-timers said was unprecedented at these conferences.

Refusing to end their applause until Austin at last rose in acknowledgment, the homecoming executives made it plain they accepted the lesson as read by their former teacher.

Shop talk. Half a dozen eminent speakers had already broadcast their words of welcome, their jokes, and their high regard for each other, for Harvard, and for business. For business conferences at Harvard in most respects do not differ from the pattern followed by hundreds of others across the country.

This meeting was devoted mostly to the topic of incentives for executives. Patrick E. Haggerty, president of Texas Instruments, Inc., and Thomas M. Ware, president of International Minerals & Chemical Corp., discussed their companies' plans. All day the audience listened to talk about stock options, profit-sharing, deferred income, and other plans of reward. But it was Austin who gave the conferees something to think about beyond the carrot and the stick.

"More and more people are wondering," he said, "whether business leaders have a code of conduct other than that of making a profit."

Policing a code. Top corporate leaders are being told they must set up high ethical standards and strict policies, and that they must then police these. Austin doubted that a code of "shalt nots," imposed from above, would act as a positive incentive for good.

They don't enlist psychological support, he said, and they leave a fallible individual to judge whether the "shalt not" applies to his particular situation.

Corporate morality and business ethics mean nothing as phrases, Austin said. The "concept of ethics or morals is one relating to right and wrong actions of individuals," not of artificial entities such as corporations. The public bases its opinion wholly on the actions of individual business managers.

Affirmative code. In this dilemma, Prof. Austin offered business management a way out through continuing its own professionalization. Let it develop a simple and affirmative code of conduct, he said, and let it publicly profess that every business manager as an individual has an obligation to society that overrides any other obligation he may have.

This is the prescription that drew the applause last Friday:

- The professional manager affirms that he will place the interest of his company before his own private interests.
- He will place his duty to society above his duty to his company and above his private interest.
- He has a duty to reveal the facts in any situation where his private interests are involved with those of his company, or where the interests of his company are involved with those of society.
- He must subscribe wholeheartedly to the belief that when business managers follow this code of conduct, the profit motive is the best incentive of all for the development of a dynamic economy.

Prof. Austin might have found additional support for his case close at home. The 10th reunion survey of the Class of 1951 reveals that, among almost 300 men responding, 11% believe that they are under pressure to behave in "ethically repugnant" ways toward other members of their organizations. And 14% regard as unethical some of the business practices their organizations follow. **End**

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Toward effective money management

After three years of labor, the Commission on Money & Credit has completed its examination of the nation's financial system and made public its findings (page 114). Its conclusion: No "wholesale overhaul of our financial structure" is required, but a great many small changes should be made to improve and strengthen the institutions and instruments that make up our present system.

As the final product of the first full dress study of monetary policy in 50 years, this is a disappointingly limited conclusion. Nevertheless, its specific recommendations point the way to some highly desirable changes and lay the foundation for the development of a more effective monetary policy.

The fact that the report has no really new ideas or insights is not surprising. The commission itself was a big and diverse group that was much more involved in finding areas of agreement than in striking out in new directions. The surprising thing is that, despite its unwieldy size and obvious conflicts of interest, the commission reached agreement on a number of useful and constructive proposals.

Independence or isolation?

The most valuable contribution that it makes is its recognition that monetary policy is part of the nation's over-all economic policy, and cannot be considered as something distinct and separate. The commission calls for a much greater degree of coordination in national economic policy—which, in effect, means much closer ties between the executive branch and the Federal Reserve.

This relationship—or lack of it—between the Fed and the Administration emerged as a major economic issue during the 1950s. Ever since the Fed-Treasury accord of 1951—when the money managers ceased being subordinate to the debt managers—any attempt to bring about a close working relationship has raised a cry about the danger of meddling with the Fed's independence.

The commission makes clear, however, that independence can mean isolation, and it feels strongly that a greater measure of coordination is needed. It does not want to strip the Fed of its powers or return it to its former state of subservience. On the contrary, it makes a number of recommendations to strengthen the position of the money managers so that their status—and their influence—will be enhanced when dealing with the President.

In calling for greater cooperation, the study considers but stops short of proposing a national economic council charged with formulating over-all economic policy. Instead, it seeks to achieve coordination by a series of what it terms "modest advances on historically traveled routes"—namely, strengthening procedures already laid out in the Employment Act of 1946.

It is questionable whether modesty will achieve coordination. But the commission's inability to agree on a fresh approach is understandable, for its own efforts demonstrate that it is more successful in establishing the problems than in coming up with solutions. In this respect, the commission suffers from what the study itself describes as the inevitable result of trying to reach agreement by committee—it "tends to produce either a stalemate of inactivity or action only on the lowest common denominator of agreement. . . ."

There are other signs of the lowest common denominator at work. The commission, for example, found it impossible to agree on whether to supplement the Fed's general and indirect controls over credit with specific controls—despite its own acknowledgment that general controls can have specific effects on different borrowers.

But it makes some valuable observations on the need to strengthen the nation's private financial system. And it stresses that monetary policy can be made more effective if it is supplemented by fiscal and debt management measures.

The commission is wholly orthodox in its suggestion that the maturity of the debt needs lengthening if it is not to be an unsettling influence. In contrast, it takes a liberal approach on fiscal policy, calling for advance planning of contracyclical public works expenditures and suggesting temporary tax cuts through a flexible formula. It is most disappointing in its treatment of international monetary relations, perhaps because it did not contemplate studying this area when it first began work.

The next step

It is easy, of course, to find fault with a study that covers so wide a range and touches on so many special interests. The commission, in fact, deserves great credit for undertaking so onerous a task.

As the work of a private group, the study may not have the impact that is bestowed on a Presidential or Congressional commission. Thus, the commission may have toned down some of its proposals in the hopes of gaining widespread acceptance. This is questionable strategy, but the important thing is that it went ahead and did the job.

Now it is up to Congress—and the Administration—to get moving. If the report of the Commission on Money & Credit does nothing else but stimulate fresh thinking—and action—then it will have scored a major accomplishment.

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